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ABSTRACT

This publication suggests classroom activities and resources on inflation for use in secondary and adult/community education. Objectives are to enable students to: identify and analyze varying points of view and policy proposals on inflation; apply the decision-making process to various alternatives regarding inflation; and achieve a broader understanding of the options available to consumers as they participate to influence change regarding the inflation problem. For each topic related to inflation the following is provided: an objective, suggested learning activities, classroom materials needed, teacher resources, and suggested evaluation procedures. Although student worksheets are provided for many of the activities, publisher available materials are required for some of the activities. The activities in which the students are involved are many and varied. Some examples follow. Students take an Inflation Attitude Survey. They survey their parents or adult members of the community using the instrument and compare the opinions of adults with those of the students. Students read, summarize, and report on current newspaper and magazine articles. They research, either by group or individually, the prices of 10 common food items. Other activities involve students in role playing a 30-minute television panel discussion of what individuals and groups can do to help counter inflation, in completing a worksheet entitled "My Plan to Counter Inflation Costs", in viewing and discussing filmstrips, and in listening to mini-lectures. Pre- and posttests, a glossary of terms, and an index of organizations are included. An annotated bibliography cites materials representing a variety of points of view regarding inflation. Books, journal articles, pamphlets and reports, films, video cassettes and filmstrips, and simulations are included. The publication concludes with several position papers on inflation. (Author/RM)

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INFLATION: CONSUMERS COUNTER THE COST OF LIVING

A CONSUMER EDUCATION CURRICULUM MODULE FOR GRADES 10-14

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BY ROSELLA BANNISTER

MICHIGAN CONSUMER EDUCATION CENTER
COLLEGE OF EDUCATION
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YPSILANTI, MICHIGAN

DECEMBER, 1980

SP013206

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We especially express our appreciation to Dr. Dustin Wilson, Director, Office of Consumers' Education, U. S. Department of Education. It was he who initiated the idea for this project and who has been vital to its achievement. As Project Officer, he has been concerned but not intruding, available but not imposing, questioning but not badgering. We are grateful to him.

While the Consumer Education Development Program has been national in scope, the staff has worked with local consumer educators in the development of a number of curriculum models. This module on inflation represents the collaborative work of Rosella Bannister and Charles Monsma of the Michigan Consumer Education Center and the following teachers, writers and reviewers:

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Appreciation is given for permission to reprint the following:

Article by Robert Heilbroner, "The Inflation in Your Future", The New York Review of Books, Copyright May 1, 1980, NYREV. Reprinted by permission.

Selected survey questions from Making Ends Meet: How Families Cope with Inflation and Recession, (Sage Library of Social Research, Vol. 86) by David Caplovitz, Copyright 1979, pp 261-293. Reprinted by permission of the publisher, Sage Publications.

Worksheet adapted from Teaching Topics, "Inflation: A Monster We Can Control", American Council of Life Insurance and Health Insurance, Fall, 1979. Used by permission.

THE CONSUMER EDUCATION DEVELOPMENT PROGRAM

The fundamental premise of the Consumer Education Development Program has been that consumer education, if it is to be effective in the future, must be critically examined today. Researchers and practitioners have repeatedly called for a clearer definition of consumer education, an examination of its purposes and objectives and identification of its important concepts.

During the first year of the Consumer Education Development Program, the major work was devoted to addressing such questions as:

- What is being done in consumer education? And how effectively?
- What areas of concern are being addressed? And which are not?
- What are the needs of the future?
- How can new teaching materials best be developed and disseminated?

In addressing these and similar questions, we consulted with leaders and practitioners of consumer education from schools and colleges, and from community groups and government agencies. We convened meetings, read reports, visited programs, and talked with those doing programs, in an effort to describe accurately what was happening in consumer education and what was needed. The reports listed on the inside front cover of this module address these topics.

The CEDP publication which provided the linkage between the work of the first and second year is the Classification of Concepts in Consumer Education. This Classification expresses our view of the broad scope of consumer roles and influence, and the increasing complexity of consumer education. Using the classification of concepts as a base, we developed a set of curriculum units, designed to illustrate various aspects of the classification system. These units were designed to present new material, to illustrate new approaches or to address new audiences, and were pilot-tested in various locations. The chart on page 4 lists the concepts, test site location, site agency and the target audience.

CONCEPT TEST SITE PLAN

CONCEPT CATEGORY	LOCATION AND AGENCY	TARGET AUDIENCES
Resource Management (Financial Planning)	Detroit, Michigan WXYZ-Television	Adult Women, Separated, Widowed, Divorced
Economic System (Inflation)	Oregon Department of Education	Secondary School Teachers and Students
Economic System (Inflation)	Ypsilanti, Michigan Ypsilanti High School	Secondary School Teachers and Students
Citizen Participation (Bargaining Strategies)	Atlanta, Georgia Jacqueline Lassiter Assoc.	Community Based Organization Personnel
Citizen Participation (Consumer Citizen Role)	St. Louis, Missouri City Schools	Urban, Elementary Teachers and Students
Citizen Participation (Health Services)	Iowa Consumers League	Rural Adults
Citizen Participation (Food Advertising)	Berkeley, California Vista College	Urban Adults
Resource Management (Purchasing)	New York City Public Schools	Urban Junior High School Students
Resource Management Citizen Participation	Western Massachusetts Belchertown State School	Deinstitutionalized Developmentally Disabled
Consumer Advocacy (Mental Health Services)	Northampton, Massachusetts Self-Advocacy Group	Deinstitutionalized Developmentally Disabled

The planned outcome of the entire two-year CEDP study is to build a new design for consumer education that:

- is more far-reaching and integrated than ever before
- includes attention to topics of increasing interest to consumers -- such as human services, conservation, inflation and consumer advocacy
- incorporates expanded roles for consumers, such as the consumer-citizen role in influencing public policies which affect consumers
- assures increased attention to special groups served by consumer education, including women, the poor, senior citizens, the disabled, minority groups.

The CEDP study has produced an assessment of consumer education, a revitalized classification of concepts, and new approaches and materials which should lead to improved consumer education programs in a variety of educational settings.

In developing this module on inflation, Rosella Bannister, CEDP Project Co-Director and Director of the Michigan Consumer Education Center, coordinated the following developmental activities:

- current books, articles, pamphlets, curriculum units, films, video-cassettes and teaching materials were reviewed and evaluated.
- high school classroom teachers in Oregon and Michigan were identified to participate in the development and testing of the inflation module.
- module goals and student learning objectives were identified by the development team.
- representatives from two well-known policy research organizations were invited to prepare position papers on the causes, consequences and proposed actions to curb inflation. The organizations were purposely selected to represent divergent viewpoints:

  Russell Libby
  National Center for Economic Alternatives
  2000 P Street, NW, Suite 200
  Washington, DC 20036

  Mickey Levy
  American Enterprise Institute
  1150 Seventeenth Street, NW
  Washington, DC 20036

- a group of six economists and educators were identified to review drafts of the module at various stages of its development.
- teacher inservice meetings were conducted in Oregon and Michigan to review module components and to suggest additional learning activities resources, and student assessment instruments.
- the module components were tested in consumer education classrooms in Oregon and in Michigan.
- based on teacher and student evaluations, the module was edited and revised for printing and dissemination throughout the consumer education resource network.

CLASSIFICATION OF CONCEPTS IN CONSUMER EDUCATION

The primary reason for developing the 1980 Classification of Concepts in Consumer Education was to provide a basis for program and materials development and to encourage exchange of ideas and information about consumer education. The identification and classification of concepts should diminish confusion, both within and outside the field, as to what consumer education is, and what consumers should know and be able to do.

The Consumer Decision-Action System, Figure 1, page 7 is the framework around which the concepts of consumer education are identified. Figure 1 illustrates the idea that consumers influence and are influenced by both external and personal factors as they make decisions and take actions in the areas of resource management and citizen participation.

Building on a definition of consumer education, the concepts which make up the content of the field are identified and classified in Figure 2, page 8. The CEDP Classification of Concepts in Consumer Education provides a definition of each concept, discusses its application to consumer education, illustrates the potential impact of consumer education on various modes of consumer behavior, and identifies twelve contemporary factors affecting consumer decisions.

Consumer competence in the marketplace is not parceled out in clearly defined areas. Knowledge is interdependent; in reality concepts merge in endless combinations. In this curriculum module on inflation, we illustrate how the concept of inflation is related to many other concepts within the system.

In this concept classification system, inflation is a fifth-level concept, under the major concept category of Decision Making. Figure 3, page 9 illustrates in more detail the location of the concept of inflation.

However, inflation influences consumer behavior in every other concept category identified in the entire classification system. See Figure 4, page 10.

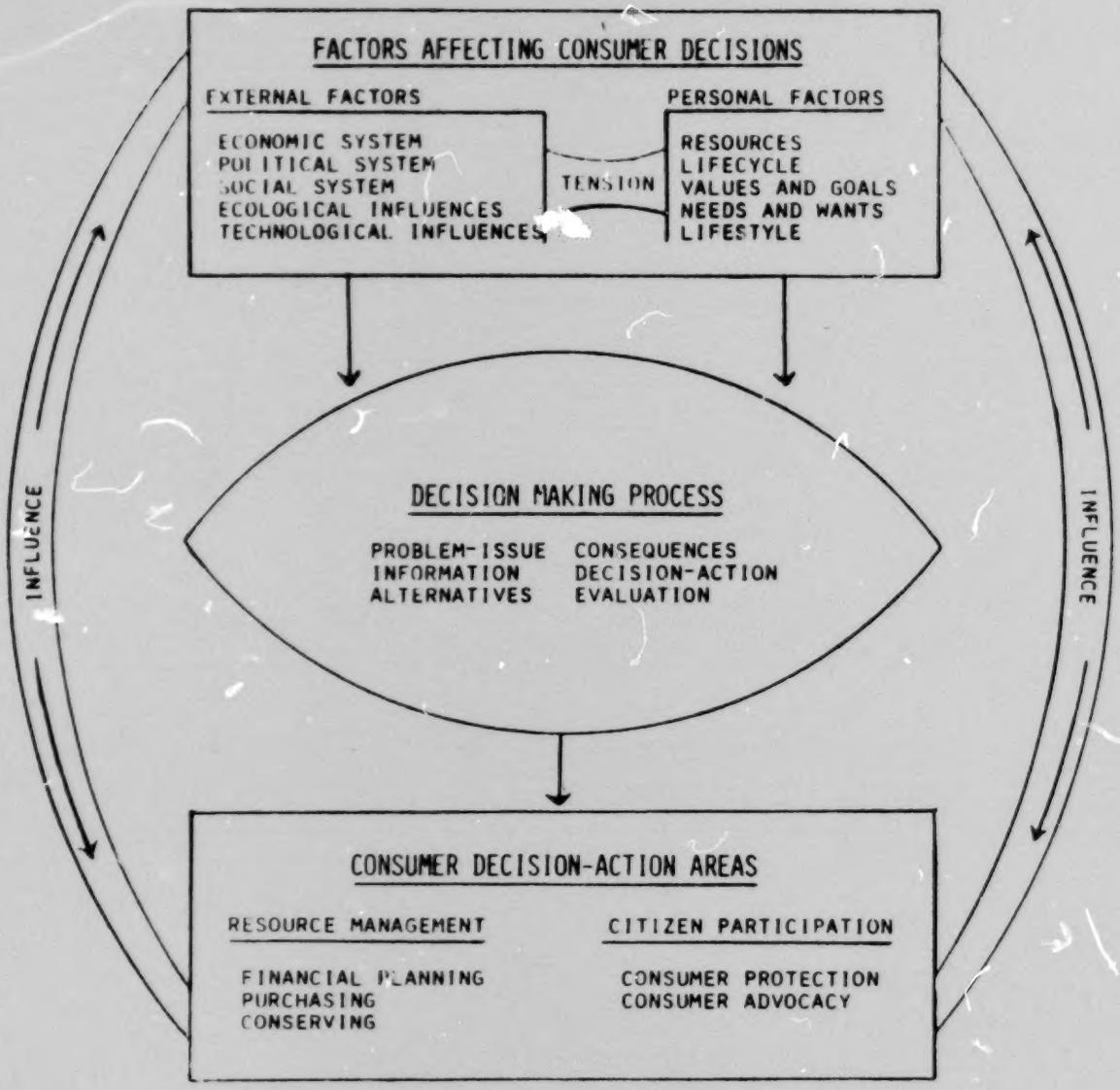

FIGURE 1. CONSUMER DECISION-ACTION SYSTEM*

*From Bannister, Rosella and Monsma, Charles, Classification of Concepts in Consumer Education, Consumer Education Development Program, Michigan Consumer Education Center, Eastern Michigan University, Ypsilanti, Michigan 1980, p.11. Adapted from Suzanne Dale Wilcox, A Conceptual Framework for Consumer Education Curricula, City University of New York, January, 1980, p. 12.

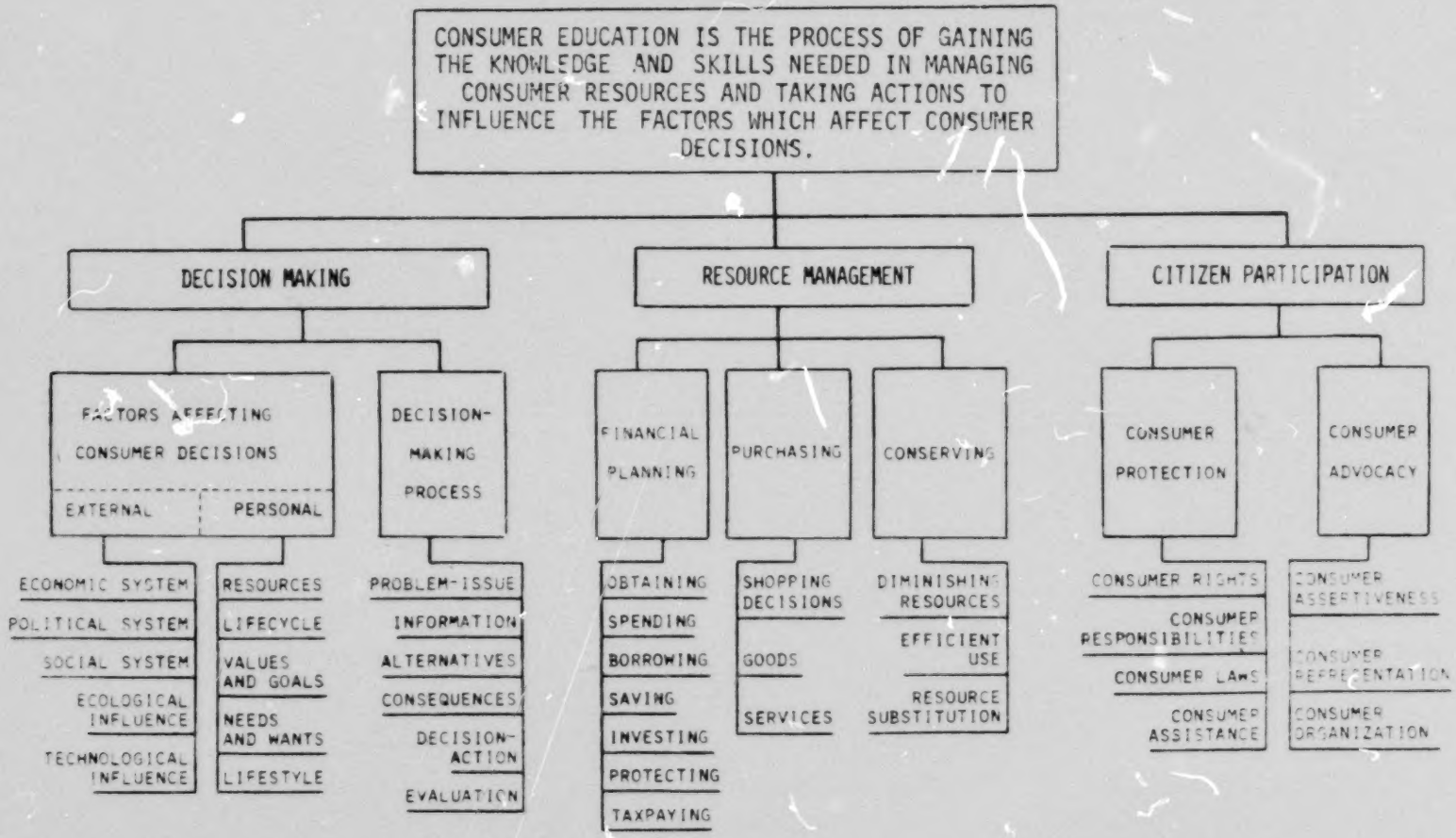

FIGURE 2. A CLASSIFICATION OF CONCEPTS IN CONSUMER EDUCATION*

*From Bannister, Rosella and Monsma, Charles, Classification of Concepts in Consumer Education, Consumer Education Development Program, Michigan Consumer Education Center, Eastern Michigan University, 1980, p. 19.

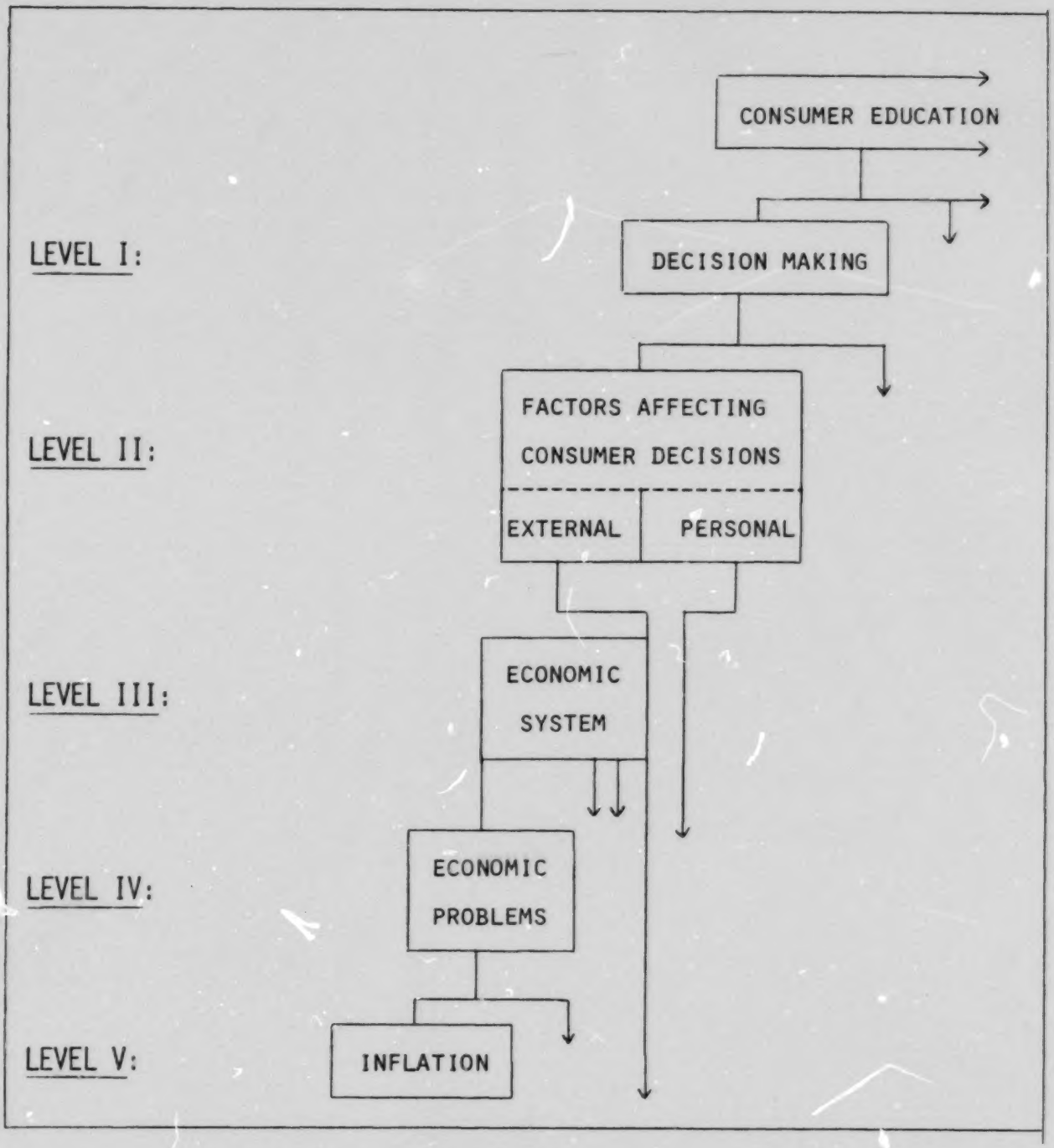

FIGURE 3: LOCATION OF INFLATION WITHIN THE CONCEPT CLASSIFICATION SYSTEM*

*See the document Classification of Concepts in Consumer Education for concept definitions and applications to consumer education curriculum development.

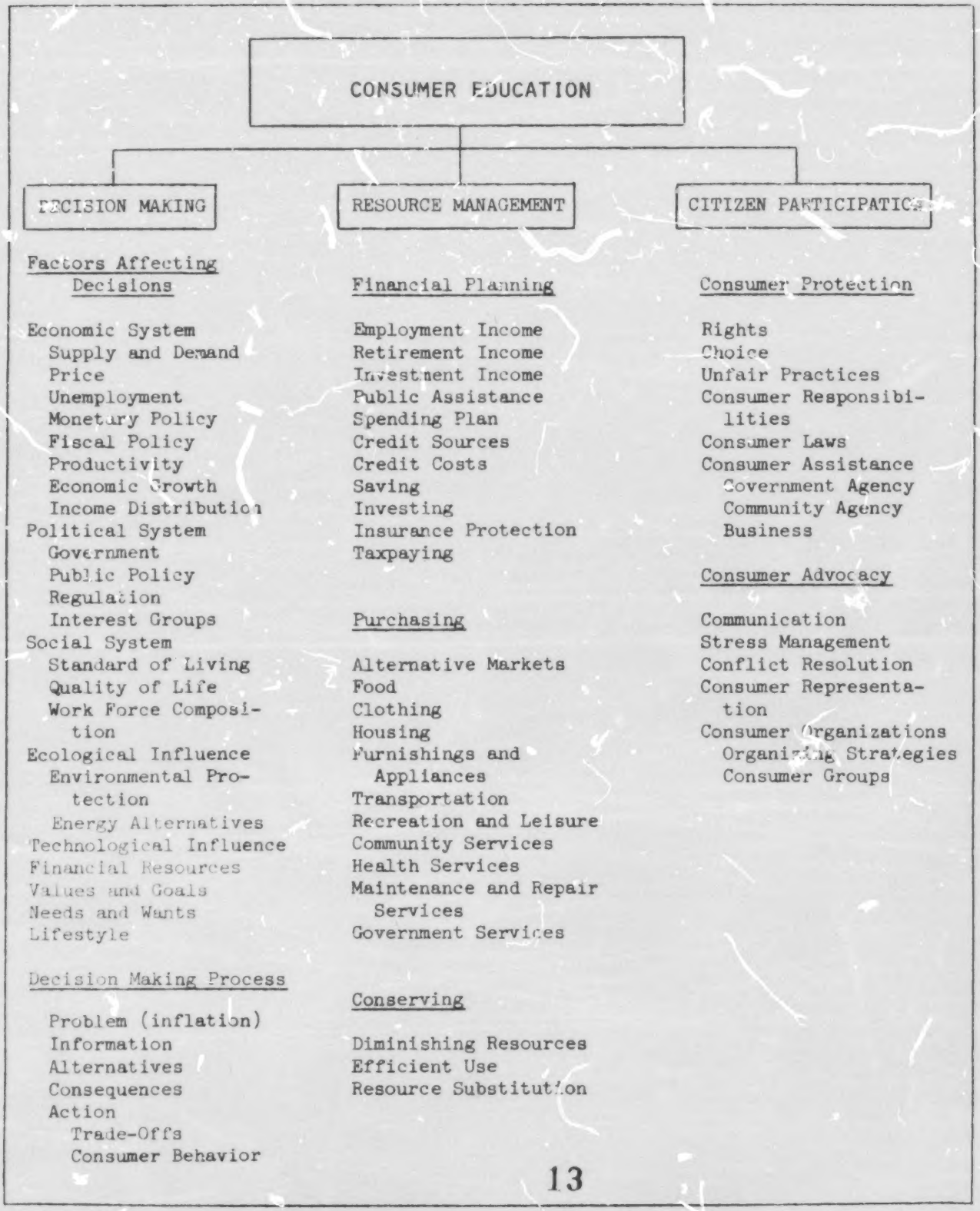

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FIGURE 4: CONSUMER CONCEPTS RELATED TO INFLATION

In addition to the concepts and topics listed in Figure 4, the following contemporary factors affecting consumer decisions from the Classification of Concepts in Consumer Education are reflected in this module:

Contemporary Factors Affecting Decisions

- Inflationary Pressures
- Attitudes toward Economic Growth
- Economic Interdependence
- Economic Concentration
- Importance of Interest Group Political Activities
- Growth in the Public Sector
- Growth in Consumption of Services
- Income Distribution
- Interest in Simple Lifestyles
- Changes in the Work Force

While this module does not treat in detail each of the concepts, topics and contemporary factors listed above, teachers should be aware of the potential opportunities to reinforce student learning about inflation through a broad range of related topics and units.

INFLATION MODULE PURPOSES, AUDIENCES AND SUGGESTED TIMEFRAME

An important goal of consumer education is to establish an environment for the exchange of information and ideas on significant social, political and economic issues important to consumers in society. This module on inflation is designed to enable students to:

- identify and analyze varying points of view and policy proposals on inflation
- apply the decision making process to various alternatives regarding inflation
- achieve a broader understanding of the options available to consumers as they participate to influence change regarding the inflation problem.

This module does not attempt to reconcile conflicting opinions regarding the complex and controversial problem of inflation. Rather the module encourages teachers and students to <u>think</u> about the causes, consequences and alternative ways to slow the rate of inflation, to <u>question</u> and <u>analyze</u> current policies, and to <u>sharpen</u> their perspectives on appropriate <u>actions</u> for individuals and policymakers regarding inflation.

While this module is primarily designed for teachers of high school students, it is also appropriate for use in adult and community education. The approximate classroom teaching time suggested is ten fifty-minute classroom periods, or a concentrated one-day community program. The teacher or discussion leader is encouraged to select from the many suggested activities and resources provided in the module, based on local program goals and time constraints.

INFLATION MODULE

In the opinion of leading public policy journalists and analysts, the current problems of inflation are enormously complex and deeply rooted in the existing social, economic and political structures of society. (See references cited in the annotated bibliography found in this module.) The major policies that might ultimately resolve current inflationary problems carry heavy costs that the American society, and particularly powerful interest groups within society, are not now willing to pay.

This module is designed, not to resolve controversy regarding inflation, but rather to help students choose among practical options both when making personal financial decisions and when taking actions to influence public policies regarding inflation.

General Strategy for Inquiry. This study of inflation is designed to strengthen the development of critical thinking skills of students. The following inquiry process is reflected in the design of the student learning objectives and activities.

1. Focus on the problem -- inflation.

   Give focus to your study of the issue by defining inflation and considering some of its consequences. See Objective 1, The Problem of Inflation.

2. What is your opinion now regarding inflation?

   What do you think about inflation before you have investigated it? See Student Worksheet 1, page 19.

3. Gather some information about inflation.

   Keep a record of the sources of your data. The more you study, the more valid your opinion is likely to be.

   (See Objective 2, Sources of Information about Inflation. See Student Worksheets 2 and 3, pages 23 and 25.)

4. Analyze the information on inflation.

Explore a variety of viewpoints on inflation. See Objective 3. Causes of Inflation, and Objective 4, Methods of Slowing Inflation.

Some questions you may want to consider when analyzing opposing viewpoints are:

(a) Is the information factual or an opinion?

(b) Do you find the same information or opinions in more than one source? What is the source?

(c) Does the source have a bias?

(d) What costs are involved in suggested remedies? Who loses? Who pays?

5. Revise and refine your own opinions about inflation.

Based on your study, what is your current position on the actions and policies which should be taken to counter inflation. How do these differ from your opinions before you studied the issue? See Objective 4, Methods of Slowing Inflation and Objective 5, Consumers Counter Inflation Costs.

A Reminder: The purpose of this module is not to resolve conflicting opinions nor to decide on the one best solution to the inflation problem. Rather, the purpose is to bring about a broader understanding of the issues and to sharpen student perspectives on alternative solutions to the problem. This is not to say that there are no wrong answers to the questions posed by inflation, nor that all opinions are equally valid. But given our present lack of knowledge, reasonable and well informed people disagree about important facets of the subject.

MODULE OBJECTIVES

The overall goal of this module is to have students analyze differing points of view about inflation, its causes and proposed remedies, and to determine effective measures individuals or groups can take to counter inflation costs.

General instructional objectives have been written for five concept areas:

The Problem of Inflation

OBJECTIVE 1: Students will know what inflation is and the problems it causes.

Sources of Information

OBJECTIVE 2: Students will be able to evaluate sources of information about inflation.

Causes of Inflation

OBJECTIVE 3: Students will be able to anlyze differing points of view regarding causes of inflation.

Solutions to Inflation

OBJECTIVE 4: Students will be able to analyze differing points of view regarding methods of slowing the inflation rate.

Individuals and Groups Counter Inflation Costs

OBJECTIVE 5: Students will be able to formulate individual and group action plans to counter inflation costs.

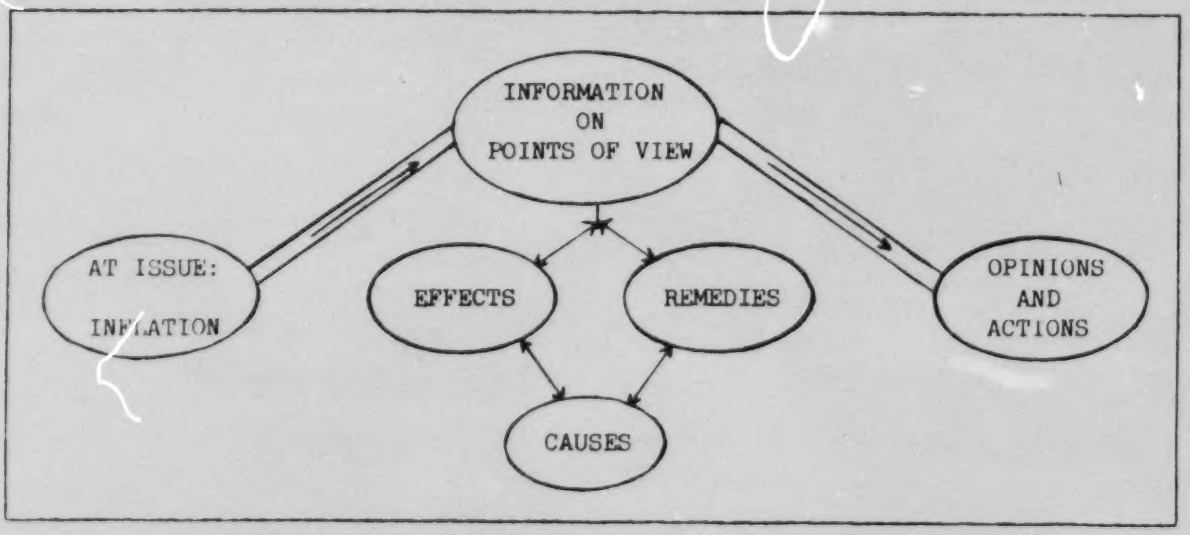

FIGURE 5: EXPLORING THE ISSUE OF INFLATION

MEASURE OF STUDENT LEARNING

Possible behavioral outcomes have been listed under each objective to suggest to teachers how they might use teacher observation, student assignments and objective questions to assess students' progress during the unit. The objective-referenced Post Test included in this module will serve as a final measurement device for assessing individual student attainment of the objectives.

THE PROBLEM OF INFLATION

OBJECTIVE 1: Students will know what inflation is and the problems it causes.

-- Define inflation.
-- Identify major problems caused by inflation.

Suggested Learning Activities

1. Using Student Worksheet 1, the Inflation Attitude Survey, have students complete the survey, recording their opinions prior to studying the issue. Discuss the results in class.

   Students could also survey their parents and/or other adult members of of the community using the same survey instrument. Compare the opinions of adults with those of the students. Look for similarities and differences in the responses.

2. Have students, in groups, interview each other to determine what they believe inflation is and what problems it causes. Record group answers and draw session to a close by developing them into a class summary definition and problem statement.

3. As a general introduction to the topic, view and discuss one of the following audio-visual resources on inflation: See bibliography for source of A-V materials.

   Video-cassette -- Cover Story, It's Only Your Money
   Filmstrip and cassette -- Inflation: The Hole in Your Pocket
   Filmstrip and cassette -- Inflation: Prices and Wages and Running Amok
   Filmstrip and cassette -- Inflation: Why Me

4. If audio visual materials are not available to you, present a mini-lecture on the problems caused by inflation, including the effects of inflation on consumers.

   Resources identified in this module could provide the content for this mini-lecture. Discuss the effects of inflation on financial planning and budgeting, on the use of consumer credit, savings programs and insurance protection. Point to potential changes in a person's standard of living brought about by inflation in the necessities -- energy, food, housing and health care.

Classroom Materials

Multiple copies -- Inflation Attitude Survey Form
Selected audio-visual resources

Note: See annotated bibliography on page 64 for description, source and costs of suggested resources.

Teacher Resources

Three papers on inflation which are found in Module Appendix. (Levy, Libby and Heilbroner)

Pamphlet, Everybody's Money, "Personal Guide to Financial Fitness", Credit Union National Association, 1980. Note especially the articles titled:

"Saving During Inflation: Dumb or Smart?"
"Twenty Years of Inflation: How Things Change"
"Is Budgeting a Dirty Word?"
"Is Debt Bad or Good? When? Why?"

Fuller, Robert. Inflation: The Rising Cost of Living on a Small Planet, 1980.

Porter, Sylvia. Sylvia Porter's New Money Book for the 80's, 1979.

Suggested Measurements

Observation/class discussion, group checklist, short answer questions, objective questions.

See Post Test questions 1 and 6, pages 53-55.

Student Name _____ Date _____

STUDENT WORKSHEET #1 -- INFLATION ATTITUDE SURVEY

Directions: Please indicate your opinion on various statements regarding inflation. Some reasonable, well informed people agree, while others disagree, with these statements. If possible, avoid checking the undecided column.

	Agree	Disagree	Undecided
1. Inflation is a greater economic problem than is unemployment.			
2. The United States should implement mandatory wage and price controls in the major industries.			
3. The federal government should reduce spending on education and social welfare programs.			
4. The federal government should reduce military expenditures.			
5. The Federal Reserve Board should raise interest rates so that consumers and businesses will borrow less money.			
6. It is a mistake for consumers to save money during times of high inflation.			
7. In general, businesses earn too much profit, causing inflation to increase.			
8. In general, unions raise wages to excessively high levels, causing inflation.			
9. To discourage inflation, consumers should cut back on the purchase of goods and services, even if this action reduces their standard of living.			
10. Consumers in general are willing to make changes in their own lifestyles if they feel these changes will ease the problem of inflation.			
11. Consumers should borrow as much money as possible during times of high inflation.			

Worksheet developed by the Michigan Consumer Education Center at Eastern Michigan University, 1980.

SOURCES OF INFORMATION

OBJECTIVE 2: Students will be able to evaluate sources of information about inflation.

-- Identify sources of information about inflation.
-- Summarize information on inflation found in at least one publication.
-- Distinguish between factual information and opinion.

Suggested Learning Activities

1. Discuss how knowledge of basic terms used in current articles on inflation can increase our understanding of the various points of view. Choose terms suitable to the level of students from the Glossary of Terms found on page 59.

2. Using Student Worksheet 2, Vocabulary Development Puzzle, page 23, have students complete the puzzle. Develop additional puzzles or fill-in definition exercises, based on terms indentified by students as they begin to collect and summarize articles on inflation.

   Answer Key to Puzzle

   1. Indexation
   2. Consumer Price Index
   3. Federal Reserve System
   4. Inflation
   5. Stagflation
   6. Productivity
   7. Fiscal Policy
   8. Monetary Policy
   9. Gross National Product

3. Using the school or public library, have students compile a suggested "Low Cost Library on Inflation". Have students send away for important pamphlets and articles using the bibliography in the back of this module.

4. Have students read, summarize and report on current newspaper and magazine articles using Student Worksheet 3, Readings on Inflation, page 25. Collect articles, classify into categories and display articles on class bulletin board. Dicuss the difference between factual information and opinions.

5. Have students research, either by group or individually, the prices of 10 common food items using Student Worksheet 4, Food Price Comparisons, page 27. Report findings to class. This worksheet could be adapted to include other items than food, and students could locate 1970 prices from old catalogs and newspaper ads.

6. Present a mini-lecture on the major economic indicators, including the Consumer Price Index, the Gross National Product and the Unemployment Ratio. Use information and posters found in the media kit Economic Concepts and Issues. See bibliography for source.

Classroom Materials

Student Worksheet 2, Vocabulary Development Puzzle on Inflation
Student Worksheet 3, Readings on Inflation
Glossary of Terms and Index to Organizations
Student Worksheet 4, Food Price Comparisons
Economic Indicator Posters from Economic Concepts and Issues Media Kit

Teacher Resources

Glossary of Terms, page 59 and Index of Organizations, page 62. Selected Readings from Annotated Bibliography and other sources.

Economic Concepts and Issues Media Kit, from J. C. Penney and Co. The kit includes an explanation of the major economic indicators, including the Consumer Price Index, the Gross National Product, the Unemployment Ratio and the Index of Consumer Sentiment.

Suggested Measurements

1. Teacher observation of student participation in discussion and activities.
2. Successful completion of Student Worksheets 2, 3 and 4.
3. Have students discuss orally or write an essay on important sources of information about inflation.
4. See Post Test question 2, page 53.

Student Name _____ Date _____

STUDENT WORKSHEET 2

VOCABULARY DEVELOPMENT PUZZLE ON INFLATION

Directions: The major concept in this lesson is inflation. Nine definitions related to inflation are to be identified by you. Place the correct term in each space provided. Each blank represents a missing letter in a word. Use the definitions below to help you.

1. _ _ _ _ _ _ _ _ _ I _ _ _ _ _ _ _ _ _
2. _ _ _ _ _ _ N _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
3. _ _ _ _ _ _ _ F _
4. _ _ _ _ _ L _ _ _ _ _
5. _ _ _ _ _ A _ _ _ _ _ _ _ _ _
6. _ _ _ _ _ _ _ T _ _ _ _ _
7. _ _ _ _ _ I _ _ _ _ _ _ _ _ _ _ _ _ _ _
8. _ _ _ _ _ _ _ _ _ _ _ O _ _ _ _
9. _ _ _ _ _ _ N _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _

Definitions:

1. Tying monetary contracts such as wages to rises in consumer prices.
2. A figure used to measure the rise or fall in the average price level of consumer goods and services.
3. The organization responsible for monetary policy in the United States.
4. A sustained rise in the average price level of goods and services.
5. A situation of high unemployment and high inflation.
6. The amount of output that a worker accomplishes per hour.
7. The use of taxation and government spending to serve national economic goals.
8. The use of changes in the money supply, and the cost and availability of credit to serve national economic goals.
9. The total value of goods and services produced in the economy within a given time period.

Student Name _____ Date _____

STUDENT WORKSHEET 3

READINGS ON INFLATION

Directions: Read an article or publication on the topic of inflation and complete the following worksheet.

1. Title of article or publication _____

   Source _____ Publication Date _____ Number of pages _____

   Author(s) _____

2. Write a brief summary of the major idea(s) presented regarding inflation. Look for information on the following points:
   a. definitions of inflation
   b. ways of measuring inflation
   c. cause of inflation
   d. problems caused by inflation
   e. policies related to inflation

3. Is the information factual or an opinion, that is, what sort of evidence does the author use to support the points he is making?

4. Have you found the same information or opinion in more than one source?

   yes___ No___ If yes, where? _____

5. Explain why you agree or disagree with the major idea(s) presented in the reading. Include relevant social, political or economic implications that you agree or disagree with.

Worksheet developed by the Michigan Consumer Education Center at Eastern Michigan University, 1980.

Student Name _____ Date _____

STUDENT WORKSHEET 4

FOOD PRICE COMPARISONS

1. The following prices were gathered from U. S. Department of Labor and Education data and are national averages. Complete the third column by finding the current price of these items at a local store.

Product	1970	1980	Now
Eggs (dozen large)	$ .62	$ .81	$_____
Bacon (lb.)	.97	1.56	_____
Chicken (lb.)	.39	.67	_____
Tomatoes (lb.)	.30	.52	_____
Milk (half gal.)	.58	1.09	_____
White bread (lb.)	.25	.49	_____
Potatoes (lb.)	.09	.18	_____
Hamburger (lb.)	.67	1.41	_____
Butter (lb.)	.87	1.89	_____
Coffee (lb.)	.95	3.48	_____

2. At which store did you get your prices?_____

3. Did any items decrease in price? Yes___ No___

   If yes, which ones?_____

   Why do you think this happened?_____

   _____

4. Which item increased in price by the greatest percentage?_____

   Why do you think this happened?_____

   _____

5. Have any of these food items doubled in price since 1970? Yes___ No___

   If yes, which ones?_____
   If the price of these food items doubled in the next year, would you continue to buy them? Yes___ No___. If No, which items would you eliminate first?_____

   Why?_____

   _____

Source: U. S. News and World Report, Sept. 8, 1980, p. 58.
Worksheet provided by Ypsilanti (Michigan) High School Consumer Education Class, 1980.

CAUSES OF INFLATION

OBJECTIVE 3: Students will be able to analyze differing points of view regarding causes of inflation.

- -- Identify several points of view regarding the major causes of inflation,
- -- Point out biases that occur in different points of view on causes of inflation.
- -- Determine points of view closest to personal viewpoint.

Suggested Learning Activities

1. Have students complete Student Worksheet 5, an Opinion Poll on the Causes page 31. After students have completed the worksheet, ask for a show of hands as to the three most significant causes of inflation. Discuss reasons for selecting those items. Did the majority of the students vote in a similar way? Close the activity by discussing what we can do to get a better idea of what causes inflation.

2. Assign current readings on the causes of inflation. (See classroom and teacher resources below.)

3. Conduct a mini-lecture using articles in this module as teacher and student resources. Or have community resource persons discuss causes of inflation from several different viewpoints -- individual, small business, big business, labor, government, retired persons.

4. Have students fill out Student Worksheet 6, Points of View: Causes of Inflation, summarizing at least two opinions, identifying biases expressed and indicating their own opinions as to the causes of inflation.

A Reminder: Experts do not agree about a single cause of inflation. Encourage students to express their opinions in terms of multiple causes.

Some students may resist expressing their opinions on this complicated issue. Remind these students that sometimes people must develop an opinion and support policies based on the limited information available to them at the time. Encourage students to revise and refine their opinions as new information is received and evaluated.

Discuss with students how their opinions about inflation's causes have changed since they completed Student Worksheet 1, Inflation Attitude Survey, at the beginning of this study.

Classroom Materials

Selected readings on inflation, assigned by teacher.
"The Inflation Invasion", Current Consumer, September, 1980.
"Your Inflation Guide: Dollars and Sense," Consumer Information Center, Pueblo, CO 81009.

Teacher Resources

Three papers included in this module:
"Inflation: Its Nature, Causes, Consequences and Cures" by Mickey Levy.
"Inflation in the Basic Necessities -- And How to Solve It" by Russell Libby.
"The Inflation in Your Future" by Robert Heilbroner.

Friedman, Milton. Free to Choose, 1980. Chapter 9 on inflation.
Fuller, Robert. "Inflation: the Rising Cost of Living on a Small Planet," Worldwatch Paper 34, 1980, especially the chapter on "The Circumstances of Today's Inflation."
Morrissett, Irving. "Inflation: What It is, and What (Maybe) Can Be Done about It." Social Education, May 1979, pp. 335-355.

Suggested Measurements

1. Using information from Student Worksheets 5 and 6, have students write a short essay on the causes of inflation.

2. Using their own knowledge, have students critique the following statement:

   "Inflation is created in Washington, and nowhere else."

3. Teacher-developed objective questions.

4. See Post Test, questions 3 and 7, pages 53-56.

Student Name _____ Date _____

STUDENT WORKSHEET 5

OPINION POLL: CAUSES OF INFLATION

Directions: Read all 20 items before checking the box for each item that most nearly represents your opinion about the causes of inflation. Keep in mind that inflation is a sustained rise in the average price level of goods and services.

	Major Cause	Minor Cause	Hardly a Cause
1. U. S. oil companies			
2. Arab oil-producing countries			
3. Japanese auto imports			
4. Worldwide inflationary trends			
5. U. S. farm prices			
6. Retail food prices			
7. Decreased productivity			
8. Labor union wage increases			
9. Excessive business profits			
10. Limited energy supply			
11. Increase in money supply			
12. Deficit federal spending			
13. Social welfare programs			
14. Military spending			
15. Government regulation			
16. Tax increases			
17. Consumer spending			
18. Consumer borrowing			
19. Consumer saving			
20. Other:			

In my opinion, the three most significant causes of inflation in the United States today are:

1) _____ 2) _____ 3) _____

What can we as individuals do to get a better idea of what causes inflation?

_____

_____

_____

Adapted from materials provided by Ypsilanti (Michigan) High School Consumer Education Program, October 1980.

Student Name _____ Name _____

STUDENT WORKSHEET 6

POINTS OF VIEW: CAUSES OF INFLATION

Directions: After studying at least two points of view on the causes of inflation, complete this worksheet forcing yourself to express your own opinion. What do you think?

Note: Sources of "expert" opinions on inflation can include position papers, newspapers and magazine articles and pamphlets, as well as interviews with parents, teachers, local government, business or labor leaders.

	Opinion I - Causes Source:	Opinion II - Causes Source:	My Opinion
What causes of inflation were identified?	1. 2. 3.	1. 2. 3.	
Possible bias in this point of view.			

Did any one opinion closely match yours, or did your opinion reflect several viewpoints?

_____

_____

Worksheet developed at the Michigan Consumer Education Center at Eastern Michigan University, 1980.

SOLUTIONS TO INFLATION

OBJECTIVE 4: Students will be able to analyze differing points of view regarding methods of slowing the inflation rate.

- -- Identify different points of view regarding ways to slow the inflation rate.
- -- Point out biases that occur in different points of view on solutions to inflation.
- -- Distinguish points of view closest to personal viewpoint.

Suggested Learning Activities

1. Have students complete Student Worksheet 7 Opinion Poll: Solutions to Inflation. Discuss results of the poll in class based on opinions from various identified groups in the community.

2. Assign current readings on solutions to inflation. See classroom and teacher resources listed below.

3. Have a debate featuring well prepared students on several specific solutions to inflation or hold a panel discussion featuring several different viewpoints -- individual, small business, labor, government, retired persons. After presentation, ask questions:

   - Were there any points of conflict among the panel members? If so, what? Could these conflicts be resolved?
   - Which panel member was most convincing in his/her proposed solutions to inflation? Why?
   - Did any of the proposed solutions to inflation reflect value priorities? If so, which solutions reflected what priorities and what biases resulted?

4. Have students fill out Student Worksheet 8, Points of View: Solutions to Inflation, summarizing two opinions, identifying biases expressed and indicating their own opinion as to the solutions to inflation.

   OPTION: This activity and the one above could both address local inflationary problems and their solutions, i.e., agricultural or metropolitan concerns.

5. Have students review outcomes of Worksheets 5 and 7, Opinion Poll: Causes of Inflation and Opinion Poll: Solutions to Inflation. Determine how well solutions match causes. Discuss who benefits and who is hurt by various solutions to inflation.

Classroom Materials

Student Worksheet 3, Readings on Inflation
Student Worksheet 5, Opinion Poll: Causes of Inflation
Student Worksheet 7, Opinion Poll: Solutions to Inflation
Student Worksheet 8, Points of View: Solutions to Inflation
Additional Student Readings to be identified by students and teacher

Teacher Resources

Three papers included in this module:
"Inflation: Its Nature, Causes, Consequences and Cures" by Mickey Levy
"Inflation in the Basic Necessities and How to Solve It" by Russell Libby
"The Inflation in Your Future" by Robert Heilbroner

Okun, Arthur. Curing Cronic Inflation. Brookings Institution, 1978
"Inflation: A Monster We Can Control." Teaching Topics, American Council of Life Insurance, Fall, 1979
"John Kenneth Galbraith on Inflation." Consumer Reports, February, 1979

Suggested Measurements

1. Have students describe two policies or actions which are recommended for slowing the inflation rate. After each description, they are to explain the impact of the policy or action on consumers.

2. Have students react to the following statements, giving reasons for their statements:

"A combined effort by consumers, business and government is capable of ending inflation and bringing renewed prosperity to the US economy, but to be successful, such an effort must begin with government and it must be definitive and unyielding."

"Ending our current inflation would involve social, political and economic costs, and the policy makers have not been willing to incur some of the undesirable effects of reducing inflation.

3. See Post Test questions 4, 8, 9 and 10, pages 53-56.

Student Name _____ Date _____

STUDENT WORKSHEET 7

OPINION POLL: SOLUTIONS TO INFLATION

Directions: Read all 15 items before checking the box for each item that most nearly represents your opinion about the solutions to inflation.

	Good Solution	Poor Solution	Undecided
1. Increase productivity			
2. Establish manditory wage-price-profit controls			
3. Slow the growth in money supply			
4. Balance the federal budget			
5. Reduce government welfare payments			
6. Reduce government regulation			
7. Reduce military spending			
8. Increase research in energy technology			
9. Alter consumer lifestyles and spending patterns			
10. Increase consumer saving and investing			
11. Limit consumer credit through increased interest rates			
12. Demand less government services			
13. Establish manditory energy conservation policies			
14. Establish consumer cooperatives			
15. Other:			

In my opinion, the three most effective solutions to inflation in the United states today, are:

1)_____ 2)_____ 3)_____

What can we as individuals do to encourage policies and actions which will slow the inflation rate?

_____

_____

_____

_____

_____

_____

Worksheet developed at the Michigan Consumer Education Center at Eastern Michigan University, 1980.

Student Name _____ Date _____

STUDENT WORKSHEET 8

POINTS OF VIEW: SOLUTIONS TO INFLATION

Directions: After studying at least two points of view on the solution of inflation, complete this worksheet forcing yourself to express your own opinion. What do you think?

	Opinion 1 Solutions Source_____	Opinion 2 Solutions Source_____	My Opinion
What solutions to inflation were identified?	1. 2. 3.	1. 2. 3.	1. 2. 3.
Possible bias in this point of view.			

Was there any one opinion that closely matched yours, or did yours reflect several viewpoints?

_____

_____

_____

_____

Worksheet developed at the Michigan Consumer Education Center at Eastern Michigan University, 1980.

INDIVIDUALS AND GROUPS COUNTER INFLATION COSTS

OBJECTIVE 5: Students will be able to formulate individual and group action plans to counter inflation costs.

-- Write a personal plan as a consumer citizen and worker to counter inflation costs.
-- Propose a group plan to counter inflation costs.

Suggested Learning Activities

1. One of the important ways individuals adjust to inflation is to make changes in their personal and family spending patterns. Using Student Worksheet 9, Spending Pattern Changes, have each student complete the survey by interviewing at least three people.

   Have students compile and analyze the data, determining a pattern for their community. This could then be compared to findings of David Caplovitz as reported in his book, Making Ends Meet: How Families Cope with Inflation and Recession.

   The results of this survey could be written into a news release for the school newspaper or as a flyer to be distributed throughout the school and community.

2. Have a team of five students volunteer to role play a 30 minute television panel discussion of what individuals and groups can do to help counter inflation costs. Background information gained from the survey above should help them obtain a "feeling" for people in various situations.

   The Role Play Case:
   a. TV Panel Moderator
   b. An unemployed 18 year old high school graduate
   c. An employed automobile assembly worker (or other local unionized employment)
   d. A retired schoolteacher
   e. A president of the local supermarket chain

   Each panel member will briefly describe how inflation is affecting his or her lifestyle, and suggest one or more solutions they can initiate individually or in a group effort to counter inflation costs.

   After each panel member has spoken, the moderator will invite questions and discussion by other panel members. At the close of the TV panel discussion, the moderator will summarize the major ideas evolving from the discussion.

3. Using Student Worksheet 10, My Monthly Spending Plan, have each student design a personal budget based on beginning earnings in a chosen job. Then project income needs one year from now, figuring a "modest" annual inflation rate of 10%. Ask students "If your earnings next year do not increase as rapidly as the inflation rate, how will you adjust your spending plan?"

4. Assign the article "Goodbye to Our Good Life?", U. S. News and World Report, August 4, 1980, to be read by all students. The article concludes with this quote:

> Theodore Gordon . . . believes that "conspicuous consumption" is being replaced by "conspicuous conservation". Yet he feels the shift is occurring gradually enough that people won't view it as a lowering of living standards. He adds, "Instead of feeling deprived, people will look back at the throwaway society and think how foolish it was. Rather than feeling deprived, many will say: 'This is the right way to live.'"

Discussion question: How do you feel about a transformation in lifestyles away from materialism toward conservation?

5. Using Student Worksheet 11, My Plan to Counter Inflation Costs, have groups identify things people can do as consumers, workers and citizens to help counter inflation costs. Move to a full discussion with the class on the questions:

> "Would you be willing to remove candy machines, pop machines, recycle paper in school, recycle oil, etc.?"
> "How do you feel about changing the way you live toward conservation?
> "How do you feel about a bottle deposit?"
> "How might we increase production and resources?"
> "Are there any conflicts between actions that will help me personally, and actions that would reduce inflation generally?"

6. Have students complete Student Worksheet 1, Inflation Attitude Survey a second time and compare their later answers with their earlier ones to see if their attitudes have changed.

As a culminating activity for this study, have students design a strategy for expressing their opinions on inflation to an elected representative of local, state or federal government. Examples of successful inflation-fighting projects and citizen action tips are described in the book, People Power: What Communities are Doing to Counter Inflation, U. S. Office of Consumer Affairs, 1980.

Classroom Materials

Student Worksheet 9, Spending Pattern Changes
Student Worksheet 10, My Monthly Spending Plan
Student Worksheet 11, My Plan to Counter Inflation Costs
Article, "Goodbye to Our Good Life?", U. S. News and World Report, August 4, 1980
People Power: What Communities are doing to Counter Inflation, 1980

Teacher Resources

Burt, George. The Barter Way to Beat Inflation, 1980
Caplovitz, David. Making Ends Meet: How Families Cope with Inflation and Recession, 1979
Hayes, Denis. "Repairs, Reuse, Recycling -- First Steps toward a Sustainable Society", Worldwatch Paper #23, September, 1978
Porter, Sylvia. Sylvia Porter's New Money Book for the 1980's, 1979

Suggested Measurements

1. Teacher will observe and evaluate the student's action plan to counter inflation. Criteria for evaluation will include evidence that the student's plan is practical, realistic and is in harmony with the student's personal and societal goals.

2. See Post Test question 5, pages 53-56.

Student Name _____ Date _____

STUDENT WORKSHEET 9

SPENDING PATTERN CHANGES

Directions: Each student participating in the survey should identify the persons to be interviewed. This list could include fellow students, teachers, parents, residents of the community. A sample introduction:

> "Hello, I'm _____, of _____ High School. We're doing a survey on how people have changed their spending patterns because of inflation. We would like to ask you a few questions."

(circle)

1. Have you changed your food shopping or eating habits to save money? yes no

2. If so, in what way? _____

_____

_____

3. Have you changed your transportation patterns in any way so as to save money? yes no

4. If so, in what way? _____

_____

_____

5. Have you changed your clothes buying patterns in any way to save money? yes no

6. If so, in what way? _____

_____

_____

7. Have you changed your vacation patterns so as to save money? yes no

8. If so, in what way? _____

_____

_____

9. Do you eat out in restaurants now less often than you used to? yes no

10. Do you go to the movies and other entertainment less often now than you used to? yes no

11. Have you had to put off medical care for yourself or your family to save money? yes no

12. Have you had to put off dental care to save money? yes no

13. Have you had to get rid of any pets because you couldn't afford to feed them? yes no

14. Have you moved to a different place (to live) in order to save money? yes no

15. Have you made any other changes in your way of life in order to save money? yes no

16. If so, what?_____

_____

_____

17. Because of the high cost of living, have you joined any groups, like a food buying club, to save money? yes no

18. Because of the high cost of living, have your friends been helping you:

with repairs?	yes	no
by lending money?	yes	no
by babysitting?	yes	no
by sharing food?	yes	no
by exchanging clothes?	yes	no
by sharing transportation?	yes	no

19. Have you been helping your friends:

with repairs?	yes	no
by lending money?	yes	no
by babysitting?	yes	no
by sharing food?	yes	no
by exchanging clothes?	yes	no
by sharing transportation?	yes	no

20. Do you now make household repairs or auto repairs yourself which you used to hire people to do? yes no

21. Have you taken in boarders, relatives or friends to save costs of housing or rent? yes no

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22. Have you doubled up with another family to save housing costs? yes no

23. In order to make ends meet, have you sold any stock, jewelry, insurance, property or any other valuables? yes no

24. Have you gone into debt to avoid making reductions of the mentioned above? yes no

25. Have you reduced your tendency to save as a result of inflation? yes no

26. Have additional members of your family taken jobs in order to offset the effects of inflation? yes no

27. Have you "hedged" against inflation by buying commodities (real estate for example) which rise in value as prices rise? yes no

28. Do you feel that the changes you have been forced to make as a result of inflation have been seriously harmful to you or your family? yes no

29. Have any of these damages proved to be "blessings in disguise"? yes no

30. Would you be willing to give up some of your comforts if this would insure a solution to unemployment and inflation? yes no

31. If yes, which ones? _____

_____

_____

_____

_____

_____

_____

_____

Parts of this survey were adapted from the Appendix of Making Ends Meet: How Families Cope with Inflation and Recession (Sage Library of Social Research, Vol. 86) by David Caplovitz, copyright 1979, pp. 261-293 is reprinted by permission of the publisher, Sage Publications.

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Student Name _____ Date _____

STUDENT WORKSHEET 10

MY MONTHLY SPENDING PLAN

Directions: Build for yourself a monthly spending plan which you could use now if you were working for a beginning wage in a job of your choice. Then develop one you could use one year from now, anticipating an annual inflation rate of 10%. Be sure to account for inflationary rises in prices and wages on next year's plan.

	NOW	ONE YEAR FROM NOW
Monthly Net Income: (after taxes)	$	$
Expenses:		
Fixed:	$	$
	$	$
	$	$
	$	$
	$	$
	$	$
	$	$
Flexible:	$	$
	$	$
	$	$
	$	$
	$	$
	$	$
	$	$
Total Expenses	$	$
Savings	$	$
Expenses plus Savings (should be same as income above)	$	$

If your earnings next year do not increase as rapidly as the inflation rate, what adjustments will you make in your spending plan?

_____

Based on Worksheet provided by Ypsilanti (Michigan) High School Consumer Education Program, October, 1980.

Student Name _____ Date _____

STUDENT WORKSHEET 11

MY PLAN TO COUNTER INFLATION COSTS

Directions: As an individual you have an opportunity to help control inflation. From your study of inflation, identify ideas that you could initiate in your daily life to help control inflation, then track how well you are doing.

As a consumer of:	How would this help control inflation?	Week 1	Week 2	Week 3	Week 4
1. Energy					
2. Food					
3. Transportation					
4. Health Care					
5. Shelter					
As a worker					
As a citizen					
As a manager of my personal finances					
Saving money					
Borrowing money					

Worksheet adapted from Teaching Topics, "Inflation: A Monster We Can Control", American Council of Life Insurance and Health Insurance, Fall, 1979. Used by permission.

Student Name _____ Date _____

INFLATION POST-TEST

Directions: Answer all of the following questions. Use additional sheets of paper if necessary.

1. In your own words, define inflation and identify three problems caused by inflation.

   Inflation is _____

   _____

   _____

   Three problems caused by inflation are:

   A. _____

   B. _____

   C. _____

2. Match the following terms with their definitions.

___ 1. Indexation	A. The use of taxation and government spending to serve national economic goals.
___ 2. Consumer Price Index	B. The amount of output that a worker accomplishes per hour.
___ 3. Federal Reserve System	C. A situation of high unemployment and high inflation.
___ 4. Inflation	D. The use of changes in the money supply, and the cost and availability of credit to serve national economic goals.
___ 5. Stagflation	E. A term used to describe attempts made by policy makers to talk business and labor unions out of raising their prices and wages.
___ 6. Productivity	F. A figure used to measure the rise or fall in the general price level of consumer goods and services.
___ 7. Fiscal Policy	G. The organization responsible for monetary policy in the United States.
___ 8. Monetary Policy	H. Money paid by the federal government to individuals, including welfare, social security and unemployment compensation.
___ 9. Gross National Product	I. Tying monetary contracts such as wages to rises in consumer prices.
___ 10. Transfer Payments	J. A congressional committee composed of senators and representatives which hold hearings and issues reports on economic matters.
	K. A sustained rise in the general price level of goods and services.
	L. The total value of goods and services produced in the economy within a given time period.

3. Describe two points of view regarding the causes of inflation.

A. _____

_____

_____

B. _____

_____

_____

4. Describe two points of view regarding possible solutions to inflation.

A. _____

_____

_____

B. _____

_____

_____

5. List five ways consumers can counter inflation costs.

A. _____

_____

B. _____

_____

C. _____

_____

D. _____

_____

E. _____

_____

For the following items, circle the answer most nearly true:

6. Characteristic(s) of an inflationary period are: _____

   A. increased confidence in future economic security
   B. stable or reduced prices
   C. an increase in the value of savings
   D. a general rise in wages and prices

7. Which of the items listed below most likely contributes to inflation? _____

   A. increased productivity of workers
   B. increased government spending
   C. decrease in consumer spending
   D. development of a new product
   E. all of the above

8. A person with a monetarist point of view would suggest which of the following to slow the rate of inflation? _____

   A. get rid of the Federal Trade Commission
   B. cut the welfare program
   C. restrict growth of the money supply
   D. establish a program for rent control

9. From a retired person's point of view, which method for slowing inflation would likely cause the least personal and financial inconvenience? _____

   A. reduction in social security payments
   B. increase in taxes
   C. wage and price controls
   D. decrease in health care services
   E. none of the above

10. Which of the items listed below have been suggested as possible ways to slow the inflation rate? _____

   A. manditory wage-price-profit controls
   B. decrease government services
   C. increase productivity of workers
   D. slow the growth in the U. S. money supply
   E. all of the above

INFLATION POST-TEST ANSWER KEY

1. Related to Student Performance Objective 1.

   Inflation is a sustained rise in the general price level of goods and services.

   Among the problems caused by inflation are:

   -- High prices in the necessities, food, housing, energy and health care.
   -- Financial hardship due to reduced purchasing power.
   -- Increased difficulty in personal financial planning.
   -- Reduced value of money saved.
   -- Redistribution of income and wealth.
   -- Reduced confidence in government and economic systems.

2. Related to Student Performance Objective 2.

I	1. Indexation	B	6. Productivity
F	2. Consumer Price Index	A	7. Fiscal Policy
G	3. Federal Reserve System	D	8. Monetary Policy
K	4. Inflation	L	9. Gross National Product
C	5. Stagflation	H	10. Transfer Payments

3. Related to Student Performance Objective 3.

   Among the suggested causes of inflation are:

   -- Decreased productivity of workers
   -- Excessive wage increases
   -- Excessive profits
   -- Excessive government spending
   -- Rapid increase in money supply
   -- Government regulation
   -- Excessive consumer spending
   -- Worldwide inflationary trends
   -- Shortage of energy resources

4. Related to Student Performance Objective 4.

   Among the suggested ways to slow the rate of inflation are:

   -- Increase productivity of workers
   -- Establish manditory wage-price-profit controls
   -- Slow the growth of the money supply
   -- Reduce government spending
      · defense spending
      · social welfare programs
   -- Reduce government regulation
   -- Alter consumer spending patterns (reduce consumption)
   -- Encourage consumer saving and investing
   -- Encourage energy conservation
   -- Increase interest rates
   -- Increase research to encourage technological advances

5. Related to Student Performance Objective 5.

   Among the suggested ways consumers can counter the costs of inflation are:

   -- increase income (second wage earner, improved skills, etc.)
   -- change food shopping and eating habits
   -- change transportation patterns
   -- change clothes buying patterns
   -- change vacation and leisure activities
   -- change housing expectations
   -- practice conservation
   -- practice bartering
   -- practice do-it-yourself philosophy (auto-repair, household repairs, food preparation, etc.)
   -- establish consumer cooperatives (health care, food, banking services, etc.)
   -- form citizen-action groups to study inflation and to influence public policy

6. Related to Student Performance Objective 1. Answer: D

7. Related to Student Performance Objective 3. Answer: B

8. Related to Student Performance Objective 4. Answer: C

9. Related to Student Performance Objective 4. Answer: C

10. Related to Student Performance Objective 4. Answer: E

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A GLOSSARY OF TERMS

This glossary is intended to present simple definitions of terms used in current articles and discussions on inflation. Knowledge of these terms can increase our understanding of various points of view about causes, effects and methods of slowing inflation.

Bartering	The act of trading or exchanging one commodity or service for another. Examples include trading babysitting services for lawn care or food preparation for car repair.
Consumer Price Index	A monthly figure measuring changes in the average price urban consumers pay for those goods and services they typically purchase. This figure, the CPI, is available from the local library or from the Bureau of Labor Statistics, 1515 Broadway, Suite 3400, New York, New York 10036.
Cost-Push Inflation	A term used to describe one possible cause of inflation: Powerful interest groups seek higher real incomes by pushing up profits, wages, oil prices, etc. These actions increase costs of production which are passed on as increased retail prices, thus causing inflation.
Creeping Inflation	The tendency for the general level of prices to move slowly upward in any growing, healthy economy. Economists suggest that an annual inflation rage of 2 to 3 percent is a tolerable amount of "creeping" inflation. In recent years, however, "double-digit" inflation has caused problems.
Deflation	The opposite of inflation, a condition in which general prices of goods and services are declining. People may have reduced incomes as business activity slows and unemployment rises.
Demand-Pull Inflation	A term used to describe one possible cause of inflation: Prices rise because those who buy goods and services (investors, consumers, governmental units) are trying to purchase more physical output than the economy is capable of producing.
Double-Digit Inflation	The annual increase in the average price of goods and services is 10% or more.
Fine-Tuning the Economy	The task of the officials who set the government's fiscal and monetary policy to achieve a balance between inflation and recession.

Fiscal Policy	The use of taxation and government spending to serve national economic goals.
Gross National Product	GNP, the total value of goods and services produced in the economy within a given time period.
Hyperinflation	A period in which the average price level for goods and services rises rapidly and is out of control. In the extreme, prices may double every day! A notable example of hyperinflation in modern times occurred in Germany in 1923. The resulting economic chaos destroyed the life savings of many, including the usually stable middle class, and provided a fertile field for Adolph Hitler prior to World War II.
Incomes Policy	Any attempt by the government to influence wage and price decisions in ways other than broad fiscal and monetary policies. Examples include voluntary guidelines for wage and prices, mandatory wage and price controls and TIP, tax-based incomes policies.
Indexation	Contractual money payments such as wages, social security benefits, welfare payments or tax payments are changed periodically related to changes in the average price level. The intent is usually to protect someone's income from erosion by inflation.
Inflation	A sustained rise in the average price of goods and services. See also Creeping Inflation, Double-Digit Inflation, Hyperinflation, and Inflation Psychology.
Inflation Psychology	The self-fulfilling prophecy of people in general that inflation is becoming permanent. Large numbers of people adopt the philosophy: Buy now, because tomorrow it will cost more; borrow to the hilt, because tomorrow you will pay it back in dollars that will be worth less; do not save, because saving is no longer a virtue, it is a waste.
Jawboning	A term used to describe attempts made by policy makers to talk business and labor unions out of raising their prices and wages.
Monetarist	A person who believes that rapid increases in the money supply are the major cause of inflation. Economist Milton Friedman, a monetarist, believes that a constant and small rate of increase in the money supply will bring about reasonably stable prices.
Monetary Policy	The use of changes in the money supply and the cost and availability of credit to serve national economic goals.

Phillips Curve	A graph created by economist A. W. Phillips in 1958 showing an inverse relationship between inflation and unemployment. The Phillips Curve has been questioned in recent years because we have experienced both a high rate of inflation and high unemployment.
Productivity	The amount of output that a worker accomplishes per hour. Increasing the rate of productivity is a key factor in controlling inflation. For years, the United States has lead the world in increasing the growth rate of productivity. But now our rate of increase is below that of Japan and West Germany.
Recession	A relatively mild economic downturn. Fewer goods and services are produced and consumed and unemployment increases.
Stagflation	A situation of high unemployment and high inflation.
Tax-Based Incomes Policy (TIP)	An inflation-fighting idea that would give tax breaks to business and workers who do not raise prices or wages by more than a certain established amount.
Transfer Payments	Payments made by the federal government to individuals, not in compensation for services rendered, but rather as a matter of right or entitlement under various laws. Examples include welfare payments, unemployment compensation, and social security payments.

INDEX OF ORGANIZATIONS

American Enterprise Institute	Established in 1943, AEI is a nonprofit, nonpartisan, publicly supported research and educational organization. It assists scholars, business, policy makers and the public through analysis of issues. 1750 17th Street NW, Washington, D.C. 20036.
Brookings Institution	A private nonprofit organization devoted to research, education and publication in economics, government and current public policy problems facing the American people. 1775 Massachusetts Avenue NW, Washington, D.C. 20036
Bureau of Labor Statistics	A section of the U.S. Department of Labor. Responsible for the monthly Consumer Price Index.
Committee for Economic Development	A nonpartisan organization, composed of leading business persons and educators, which issues frequent policy statements on economic matters. 477 Madison Avenue, New York, N.Y. 10022.
Council of Economic Advisors	See President's Council of Economic Advisors.
Council on Wage and Price Stability	A branch of the executive office of the President. The functioning Council and its chairman are appointed by the President with the approval of the Senate. The Council monitors inflation and makes policy recommendations. Heads of the various cabinet offices also serve on the Council, which was established in 1974, replacing the Cost of Living Council.
Federal Reserve System	The organization responsible for monetary policy in the United States. There are twelve regional federal reserve banks and a Board of Governors of the System.
Joint Council on Economic Education	An independent nonprofit nonpartisan, educational organization incorporated in 1949 to encourage economic education in schools. The JCEE has a network of 200 centers operating at universities which provide programs, courses, speakers and materials. 1212 Avenue of the Americas, New York, New York 10036.
Joint Economic Committee	A congressional committee composed of ten Senators and ten Representatives which holds hearings and issues reports on economic matters. The annual report is available each March from the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20202

National Bureau of Economic Research	A non-partisan economic research organization located at 1050 Massachusetts Avenue, Cambridge, MA 02138. Funded through foundations and corporations, similar to the Committee on Economic Research.
National Center For Economic Alternatives	A non-profit economic research organization which attempts to formulate creative new directions for economic policy in an era of increasingly different economic problems. The NCEA works with consumers, labor and civic groups to challenge the economic establishment and government policy makers. 2000 P. Street, N.W., Suite 200, Washington, D.C. 20036.
President's Council of Economic Advisors	The CEA is a group of economists who analyze economic trends and recommend economic policies to the President. The Council was created at the end of World War II by the Full Employment Act of 1946. It has three members appointed by the President with the consent of the Senate, a staff of assistants, and forms a part of the Executive Office of the President.

ANNOTATED BIBLIOGRAPHY ON INFLATION

REPRESENTING A VARIETY OF POINTS OF VIEW

*(starred items represent primary resources)

BOOKS

Burt, George. The Barter Way to Beat Inflation. New York: Everest House, 1980.

An explanation of how to sharpen your ability to trade goods and services without the exchange of money, a technique used by some to counter inflation. The book also discusses the organization of trading co-ops.

* Caplovitz, David. Making Ends Meet: How Families Cope with Inflation and Recession. Beverly Hills, CA: Sage Publications, Inc., 1979.

Research conducted in 1976, 4 cities (Detroit, New York, Atlanta and San Francisco): how families have been affected by and have responded to the twin calamities of inflation and recession. Which sectors of society are feeling the burdens of inflation and how are they coping?

Friedman, Milton and Rose. Free to Choose. New York: Harcourt, Brace, Jovanovich, 1980.

Professor Friedman believes that it is necessary to reduce government power in economic and social areas if we are to remain a free society. In chapter 9, "The Cure for Inflation", Friedman, a monetarist, explains that the only cure cure for inflation is a slower rate of increase in the quantity of money. Friedman believes that while some unpleasant side effects of the cure are unavoidable, they are worth it.

Hayes, Denis. "Repairs, Reuse, Recycling -- First Steps toward a Sustainable Society", Worldwatch Paper #23. Washington, DC: Worldwatch Institute.

The ever-expanding consumption of both raw materials and energy has become an inflationary force. A sensible policy -- one that emphasizes repair, reuse and recycling is proposed by the author. Chapters on "Frugality" and "Making the Most of What We've Got" make an intellectual case for conservation. The missing ingredients are a broad social commitment to the goal and the implementation of policies to achieve it. To the extent that lifestyle changes are required, the public seems willing to embrace them, concludes the author, citing a Harris poll of 1975.

Lekachman, Robert. Inflation, the Permanent Problem of Boom and Bust. New York: Random House, 1973.

This economist explains his point of view on the process of inflation, the causes and what can be done about it. Lekachman, who describes himself as a socialist, argues for inventive social policies to make permanent inflation more tolerable.

Lowell, Stephen S. Inflation and Your Future. Portland, ME: J. Weston Walch, 1976.

A mini-text for high school students which points out some of the causes of inflation and helps sutdents think about some possible solutions to the problems caused by inflation.

Okun, Arthur M. and George L. Perry, editors. Curing Chronic Inflation. Washington, DC: Brookings Institution, 1978.

Report of a conference held in 1978 by the Brookings Institute to evaluate innovative proposals for slowing inflation. Leading economists representing a broad spectrum of views discussed ways to slow the wage-price spiral, tax-based income policies (TIPs), and the extent to which labor and business are likely to support or resist innovative anti-inflation policies. The papers presume a background of knowledge in economics.

* People Power: What Communities Are Doing to Counter Inflation. U. S. Office of Consumer Affairs, 1980. Free copy available from Consumer Information Center, 682-H, Pueblo, CO 81009.

A compilation of successful inflation-fighting projects underway in communities in the areas of food, housing, energy and health care. The book provides tips on getting started in citizen action, and lists of useful resources and potential funding sources.

* Porter, Sylvia. Sylvia Porter's New Money Book for the 80's. Garden City, NY: Doubleday and Co., Inc., 1979.

An important reference for consumer educators and their students. How consumers can counter the high cost of living and use their earnings, credit, savings and investments to improve their chances of maintaining a desired standard of living.

There Are Alternatives: A Program for Controlling Inflation in the Necessities of Life. COIN (Consumers Opposed to Inflation in the Necessities of Life) 2000 P St., NW, Suite 413, Washington, DC 20036, 1979.

A group of 69 organizations in COIN are working together to fight rising prices. The book analyzes the traditional solutions to inflation and why they won't work. It then suggests both short-term and long-term reforms necessary to curb inflation in food, energy, housing and health care.

ARTICLES

* "Goodbye to Our Good Life?" U. S. News and World Report. August 4, 1980, pp. 45-49.

For most people improvements in lifestyle will be much harder to come by in the 1980's. Some authorities predict that "conspicuous consumption" will be replaced by "conspicuous conservation", without lowering living standards. "Instead of feeling deprived, people will look back at the throwaway society of the '60s and '70s and think how foolish it was."

Heilbroner, Robert L., "Inflationary Capitalism", New Yorker, October 8, 1979.

A broad social, political, and historical examination of the roots of inflation in capitalist society. For an extremely pointed and entertaining response see Herbert Stein's "Economics at the New Yorker" on the editorial pages of the Wall Street Journal, Monday, November 12, 1979.

"How Much Freedom? How Much Control?" The 1980 World Book Yearbook, Chicago, World Book Childcraft International, Inc., 1980.

A panel of public issue journalists, including Sylvia Porter, discuss the problem of inflation in the 1980's, and the trade-offs between government controls and personal freedom.

"Inflation: A Monster We Can Control." Teaching Topics, Vol. 28, No. 2, Fall, 1979. Free copies available from the American Council of Life Insurance, 1850 K St., NW, Washington, DC 20006.

* "Inflation Invasion: Coping with the Problems", Current Consumer, Vol. 5, No. 1, September, 1980, pp. 4-12.

The cover story and lead article in the first 1980-81 issue of the nation's only consumer education periodical designed for high school students, the teacher's edition includes student performance goals and teaching activities.

"John Kenneth Galbraith on Inflation", Consumer Reports, February, 1979, pp. 87-98.

Professor Galbraith argues that traditional remedies for inflation are no longer effective because the market system, which previously regulated prices and wages, has decayed. He argues that inflation can be cured only by direct restraints on prices and wages.

Keating, Kate. "Is Government Helping or Hurting American Families?" Better Homes and Gardens, September, 1980, pp. 19-32.

A report of an opinion poll of 46,817 self-selected readers of Better Homes and Gardens regarding government's effect on middle income families.

"Making a Budget for Your Inflation Rate", Changing Times, August, 1980.

Morrissett, Irving. "Inflation: What It Is, Why It Is, and What (Maybe) Can Be Done about It", Social Education, May, 1979, pp. 335-355.

Professor Morrissett, an economist at the University of Colorado, using a variety of data, explains the major current theories about the causes and remedies for inflation. He challenges individuals to fight inflation by supporting wise public policy, the trick being to discern a wise policy. He describes a point of tension: "Many of the actions individuals can take to protect themselves are actions that conflict with a good public policy." (Examples: wage demands, energy use.)

O'Toole, James. "What's Ahead for the Business-Government Relationships?" Harvard Business Review, March-April, 1979.

Identifies four political-economic ideologies for the future: 1) Libertarianism, 2) corporatism, 3) equalitarianism, 4) environmentalism-humanism. Concludes that there is no consensus on a desirable future relationship of business to government and society.

Simon, William E. "Inflation: Made and Manufactured in Washington, DC." IMPRIMIS, Vol. 8, No. 7. Hillsdale, MI: Hillsdale College, Center for Constructive Alternatives, July, 1979.

The author argues that the sole cause of inflation is improper government policy.

PAMPHLETS AND REPORTS

"Blueprint for a Working America: Rebuilding Our Economy for the 1980s." Full Employment Action Council, 815 15th St., NW, Washington, DC 20005, 1980.

The pamphlet describes a point of view of a coalition of labor and civil rights groups. It optimistically outlines a program to combat inflation "without cutting the budget for programs to aid the poor, the cities and the unemployed."

Economic Report of the President. Available each year in March-April. Superintendent of Documents, Government Printing Office, Washington, DC 20202.

Forum: Consumers in a Changing Society. Spring/Summer, 1975. A Teacher Resource. Available from the J. C. Penney Co., Inc., 1301 Avenue of the Americas, New York, NY 10019.

An excellent teacher resource providing background information and perspectives on inflation as a state of mind, what fiscal and monetary policy mean to consumers, consumer motivation and economic indicators, and the reality of inflation. Articles by experts including Owen Bymers, Max Lerner, George Katona and Hyman Minsky.

* Fuller, Robert. "Inflation: The Rising Cost of Living on a Small Planet." Worldwatch Paper #34, January, 1980. Washington, DC: Worldwatch Institute. Cost: $2.00.

Robert Fuller, former President of Oberlin College in Ohio, describes the current inflation in a global context. Fuller chides those who want a simple, immediate cure for a complex disease. The solution is many-faceted, involving fundamental shifts in social, political and economic policies. Needed is a shift away from materialism and toward conservation, a shift toward a simpler, and perhaps better, lifestyle.

Humphrey, Thomas. Essays on Inflation. Federal Reserve Board of Richmond, 1979.

16 articles on inflation. Topics include theories on inflation, interest rates and inflation, unemployment and inflation, international aspects of inflation, and alternative anti-inflationary policy prescriptions, including income policies and indexation.

Joint Economic Committee Report: A congressional report available each year in March-April. Superintendent of Documents, Government Printing Office, Washington, DC 20202.

Minarik, Joseph J. "Inflation in the Necessities," The Brookings Bulletin, Vol. 16, No. 4, 1980, pp. 8-10.

Economist Minarik points to defects in the Necessities Price Index as usually computed by the National Center for Economic Alternatives. He feels that a necessities-first approach to anti-inflation policy is not a sound basis for public action, and he explains why.

Murdock, Laurence C. Steering a Course between Inflation and Unemployment. No date. Free copies available from Federal Reserve Bank of Philadelphia, P. O. Box 66, Philadelphia, PA 19105.

Oppenheimer, Ernest J. "What You Should Know about Inflation." Ernest J. Oppenheimer, 40 Central Park South 90, New York, NY 10019. Single copy $2, bulk rate available.

Oppenheimer believes that inflation is brought on by self-serving, manipulative government policies. Oppenheimer pleads for citizens to actively participate in political affairs to restore soundness to government's policies. If used in classrooms, care should be taken to explore alternative points of view.

Personal Guide to Financial Fitness, 1980, Everybody's Money. Credit Union National Associations, Box 431B, Madison, WI 53701. Copies available through member credit unions. Grade level: high school and adult.

Articles on "Saving during Inflation, Dumb or Smart," "Twenty Years of Inflation," and "Is Debt Bad or Good?" An excellent handout for student reading and classroom discussion.

Walton, Clarence C., editor. Inflation and National Survival. Proceedings of the Academy of Political Science, Vol. 33, No. 3, 1979. Single free copies available from the American Council of Life Insurance, 1850 K St., NW, Washington, DC 20006.

A report of a 1979 Williamsburg Conference on Inflation. Major sections include Divergent Perspectives on Inflation, Impact of Government on Inflation, Problem Areas, and Assessment of Alternative Solutions. Recognizing that people do not agree on what is to be done about inflation, a plea is made for open communication on the issues.

* Your Inflation Guide: Dollars and Sense. Second Printing, November, 1979. Individual free copies: Dollars and Sense, Pueblo, CO 81009. For information about bulk copies write: Dollars and Sense, The Advertising Council, Inc., 825 Third Ave., New York, NY 10022.

A publication of the Advertising Council in cooperation with the U. S. Departments of Agriculture, Commerce, Labor and Treasury. This booklet is an attractively illustrated, easy to understand statement on the causes and solutions to inflation. A fair degree of objectivity is achieved while describing a complicated problem in simple terms.

FILMS, VIDEO-CASSETTES AND FILMSTRIPS

Cover Story -- It's Only Your Money. 1980. A 60-minute video-cassette. Grade level: junior high through adult. A 1980 public television program produced by WQED-Pittsburgh in association with Newsweek, made possible by a grant from 3M. Purchase price $295, rental $75. Available from Distribution Office, WQED-Pittsburgh, 4802 Fifth Ave., Pittsburgh, PA 15213. An accompanying brochure by the same title is available without charge from the same address.

The video-cassette and related booklet gives viewers an overview of the background causes of inflation. Then the media's pace changes and viewers participate in a quiz on inflation. The ways people cope with inflation are discussed, and finally three experts, Robert Heilbroner, Melton Friedman and Daniel Yankelovich suggest some solutions to inflation.

Economic Concepts and Issues. 1977. Grade level: high school and adult. Cost: $19.00. Available from the J. C. Penney Co., Inc., 1301 Avenue of the Americas, New York, NY 10019.

Module III in this media kit has relevance to our study of inflation. Module III discusses leading economic indicators, including the Consumer Price Index, Gross National Product, Index of Consumer Sentiment and the Unemployment Ratio. Readings, activities and posters are included in the kit.

How to Cure Inflation. Video-cassette, 1979. Ninth program in Milton Friedman's Free to Choose film series. Level: primarily for mature adult and college audiences, not for high schools. May be applicable to teacher training courses if supplemented with appropriate alternative points of view. For information regarding availability, write WQLN Public Communications, Inc., Erie, PA. The price for the 10-film set is $4500.

Corporations and foundations providing the $2.8 million to fund this series shared the conviction that the free enterprise system was under attack and needed defending. The ideological bias is to limit government power in economics and social areas. Friedman, a monetarist, argues that the cause and cure of inflation lies with the money supply. "The way to keep inflation and recession in check is to keep the money supply growing steadily and slowly at all times."

Inflation File, The. 1979. A 25 minute color film or video-cassette. Grade level: high school, college and adult. Cost: Film $395, Video-cassette $359, Rental $39.50 from World Research, Inc., 11722 Sorrento Valley Rd., San Diego, CA 92121.

A film which presents a libertarian point of view -- that government is the biggest single cause of inflation. Film maintains that government should stop increasing the money supply through funding of expensive and sometimes unnecessary programs. If this film is used in consumer education classrooms, teachers and students should supplement the film with alternative points of view regarding causes and proposed solutions to the inflation problem.

* Inflation: The Hole in Your Pocket. 1979. Current Affairs, 346 Ethan Allen Highway, P. O. Box 426, Ridgefield, CT 06877. Cost: $27.50. Kit contains filmstrip, cassette and discussion guide. Grade level: junior high through adult. Filmstrip time: 15 minutes.

This informational filmstrip discusses the basic essentials of the inflation problem, and challenges viewers to help do something about it if we are to avoid violent political repercussions. The filmstrip discusses the causes, effects and action alternatives to help curb inflation.

Inflation: On Prices and Wages and Running Amok. 1974. Filmstrip, record, student readings and teacher's guide. Grade level: junior high through adult and college level. No longer available for purchase. Information is still useful for those teachers having access to this resource developed by the Cost of Living Council, a group whose services have been absorbed by the President's Council on Wage and Price Stability.

The filmstrip and readings are designed to stimulate critical thinking and discussion about who gets hurt by inflation, what causes it, what government can do, and what individuals can do about inflation. Teacher's guide gives a general strategy for inquiry, and a suggested way to conceptualize inflation.

* Inflation: Taxing the American Dream. 1980. 10 minute filmstrip and cassette, teacher's guide, student handouts and background reading. Grade level: senior high school and junior college. Cost: $34. Available from Public Information Department, Federal Reserve Bank of New York, 33 Liberty St., New York, NY 10045.

The filmstrip has two parts: Part I, Causes and Effects of Inflation, and Part II, Proposed Solutions, Advantages and Disadvantages. Viewers observe that inflation takes something away from everybody and causes postponement or change in the American Dream.

* Inflation: Why Me? 1980. 19 minute filmstrip, cassette, game and educator's guide. Grade level: high school and adult. Consumer Affairs Department, J. C. Penney Co., Inc., 1301 Avenue of the Americas, New York, NY 10019. Cost: $12.

Mark Twain humorously explains the economic forces which cause inflation, and suggests actions consumers can take to manage in uncertain economic times.

SIMULATIONS

Inflation, A Simulation. Bruce Tipple and William Miller, Paul S. Amidon and Associates, Inc., 5408 Chicago Ave. South, Minneapolis, MN 55417, 1972.

A role-playing simuatlion for grades 10-12, designed to have students participate in the process of political-economic decision making. Students play roles representing five major groups in the U. S. economy -- the Federal Government, Big Business, Organized Labor, Special Interest Groups and Consumers. While this simulation was developed in 1972, it could be adapted to current inflation issues.

Spiral, A Simulation. David Rosser. Interact Company, Box 262, Lakeside, CA 92040, 1974.

A simulation that works toward solutions to inflation in such a way that no one group's individaul freedom is severely limited. Leadership roles include the President of the United States, labor, business, government employees, farmers, consumers and bankers. Each interest group, following research, submits a proposal to the President as to their recommended solutions to inflation.

ADDITIONAL SPACE FOR NEW RESOURCES

APPENDIX

Consumer Education Development Program

A National Study

INFLATION: ITS NATURE, CAUSES, CONSEQUENCES AND CURES

BY
MICKEY LEVY
RESEARCH ASSOCIATE
AMERICAN ENTERPRISE INSTITUTE FOR
PUBLIC POLICY RESEARCH

A POSITION PAPER
WRITTEN FOR THE
MICHIGAN CONSUMER EDUCATION CENTER
EASTERN MICHIGAN UNIVERSITY
YPSILANTI, MICHIGAN

AUGUST, 1980

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INFLATION: Its Nature, Causes, Consequences and Cures

by

Mickey D. Levy*

Since 1965, the United States has been plagued by a persistent inflation that is unprecedented in our Nation's history. If inflation continues in the future, as seems likely, all of you will be affected. As a consequence, it is important that you develop an understanding of the basic process and problem of inflation.

Viewed most fundamentally, "inflation" is a substantial persistent increase in the average combined price level of all goods and services in an economy--what economists term the "general price level." Inflation does not refer to a rise in the price of a single good or a change in the relative prices of two goods, although many people incorrectly apply the term to such events.

A conscientious student should take care to understand this distinction. In general, "relative prices" describe the terms on which different goods and services are exchanged for each other, while the "general price level" describes the terms on which all goods and services combined are exchanged for money. Inflation, accordingly, describes a

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situation in which the money value of all goods and services is growing faster than the supply, or, alternatively, in which the purchasing power of money is declining. To illustrate this difference, imagine a pure "barter economy" in which people exchange goods and services for each other and money does not exist. The relative "prices" of available goods would simply be the ratios at which the people would be willing to exchange one for another. These ratios would change to reflect the demand for and supply of the two commodities. However, since the "price" of one good would decline as that of another one increased, their combined value--the "general price level"--would remain constant. It is only when money is injected into an economic system that a rise in the general price level--and inflation--can occur.

While relative prices of goods and services are easily observable by consumers in supermarkets or shops, the general price level is not. Economists, therefore, have devised different methods of measuring the general price level and monitoring its increases (inflation) or decreases (deflation). The most commonly-used measure of inflation is based on the Consumer Price Index (CPI). The CPI is an index of the cost of a typical budget of a middle-income family of four. It is based on the total cost of approximately 380 items, including the prices of different kinds of energy, food products, housing, and a long list of goods and services, which comprise the average "market basket" consumed by the typical household. The inflation rate is the percentage increase in the CPI; a

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decline in the CPI is termed "deflation."

Table 1 shows the CPI in each year from 1965 to 1979, with 1967 prices=100, and the rate of inflation (the year-over-year percentage increase in the CPI) for each year since 1965.[1/] The figures indicate that since 1965 the general price level has increased in every year, with the rates of inflation generally higher in more recent years. The same bundle of goods that cost $95.50 in 1965, $100 in 1967, and $217.40 in 1979, would cost even more today. Of course, not everybody purchases the same market basket, and the cost-of-living for different families may rise faster or slower than the CPI, which is just an average price of a sample of goods and services.

It is noteworthy that persistent inflation is a recent phenomenon. If Table 1 were extended back to 1800, it would show alternating periods of inflation (during wars and business expansions) and deflation (following wars and during the business contractions that followed expansions), up until World War II, with the general price level nearly the same in 1940 as it was in 1800. The story has been different since then: following the inflation of World War II, prices declined only slightly, and since then have risen continuously. Another important point is that whereas recessions used to be

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1/ Since the CPI is an index, the general price level in any year could be set equal to 100, and the index numbers for the other years would be changed accordingly. For example, if 1979=100, the CPI for 1967 would become $100.0/217.4 = 46.0$.

TABLE 1

Consumer Price Index and Rate of Inflation, 1965 to 1979

Year	CPI(1967=100)	Inflation Rate (Percentage Increase in CPI)
1965	94.5	1.7%
1966	97.2	2.9
1967	100.0	2.9
1968	104.2	4.2
1969	109.8	5.4
1970	116.3	5.9
1971	121.3	4.3
1972	125.3	3.3
1973	133.1	6.2
1974	147.7	11.0
1975	161.2	9.1
1976	170.5	5.8
1977	181.5	6.5
1978	195.4	7.7
1979	217.4	11.3

Source: Economic Report of the President, January 1980, pp. 259 and 263.

accompanied by deflation, recent recessions have only reduced the rate of inflation, but not the general price level.

What Are the Effects of Inflation?

Judging from public opinion polls and political debate, inflation is now considered one of the Nation's major problems. To young people who cannot recall an environment of stable prices, this might be difficult to understand, particularly when inflation is compared to other obvious problems of our times such as unemployment, poverty, etc. However, inflation imparts serious consequences that justify this concern.

First, our recent inflation has brought financial hardship to many persons by reducing the real purchasing power of their income and in general by causing a vast and haphazard redistribution of income and wealth.

Second, inflation has had a dampening effect on the Nation's economic growth and has increased the difficulty of individual and family financial planning.

Third, inflation has increased social frustration and has reduced confidence in our government's ability to manage.

In the following pages, these adverse consequences are discussed in more detail.

Holders of money see the real purchasing power of their wealth eroded by inflation. For example, if inflation is 10 percent per year, the real purchasing power of $100 will be only $90.90 next year.[2/] Even if that $100 were put in a

2/ The real purchasing power of the $100 in any given year in the future is $100/(1+P)^{t}, where P is the rate of inflation and t is the number of years. Thus, $100/(1+.10)^{1}=$90.90.

bank account that paid 5 percent interest, the $105 at the end of the year would still represent a $5 loss in "real dollars," and that loss would be more if the $5 of interest income were taxed.

In general, individuals and businesses that have borrowed money tend to benefit from inflation because they are able to pay back their loans with "cheaper dollars" while their creditors who lend the money lose from inflation. That is, inflation allows borrowers to repay their loans with money that has lower real purchasing power than the money they borrowed. For example, again assuming an annual 10 percent inflation rate, if you lend me $100 (and do not charge interest), it will be worth only $90.90 when I pay you back next year, and less in each succeeding year I delay in repaying you.[3/] The extent to which inflation redistributes wealth between debtors and creditors depends on whether the lender anticipates inflation and charges an interest rate high enough to cover the expected decline in purchasing power of the dollars that will be repaid.[4/] For example, if you had charged me a 10 percent per year interest rate on the money I borrow, the effects of inflation on our loan agreement would be mitigated. However, the inflation rate in the 1970's has been volatile, and anticipating the rate of inflation has been very difficult for lenders and borrowers.

3/ If I do not repay you for 5 years, the purchasing power of your original $100 diminishes to $100/$(1.10)^5$ = $61.93.

4/ The real purchasing power of the $100 in any year in the future is $100/$(1+P+i)^t$, where i is the interest rate you charge me for the loan.

Since the inflation rate has been generally accelerating, lenders have tended to underestimate the rate of inflation and, as a consequence, debtors have tended to benefit from inflation at the expense of creditors. In light of the heavy reliance on borrowing in our society, inflation has led to a tremendous--and, it should be added, arbitrary--redistribution of wealth. Most homeowners have borrowed to buy their houses, corporations rely heavily on borrowing to finance their operations, and the government borrows from individuals to finance the federal debt.

At this point, you should notice that inflation reduces the advantages of frugality: people who attempt to save for the future find that it does not pay to save in conventional forms, because the purchasing power of money declines with inflation and interest rates paid on savings accounts do not keep up with inflation, while it does pay to go into debt (within limits)!

Retired people who rely on fixed income from pensions and annuities are probably the biggest losers from inflation. Many of these retired persons who find inflation eroding their real purchasing power must begin to rely on certain government transfer programs, which is particularly upsetting to those who have saved throughout their working careers so that they could enjoy a self-sufficient retirement.

Workers' wages tend to rise over time, but in the 1970's, average wage increases have not kept up with inflation. This is especially true of non-union workers, whose wages

have grown slower than union wages. Thus, many workers actually earn less today--in terms of what their wages can buy--than what they earned in 1970. Although businesses benefit from inflation because it reduces the real cost of their debt, they are taxed on all of their profits, including the portion of profits attributable only to inflation. (Of course, businesses are owned by stockholders, so the impact of inflation ultimately affects people.)

The government--if it is to be considered a separate entity--benefits substantially from inflation. First, the government is heavily in debt and inflation (which it creates!) allows it to repay its creditors (owners of Treasury bonds) in cheaper dollars. In addition, government tax receipts increase with inflation because personal tax rates are higher for higher income tax brackets, and inflation pushes taxpayers into higher brackets.

Persons who can afford to buy a house, especially those who have borrowed to finance their purchase, and persons who have invested in other assets whose values have increased faster than the rate of inflation, tend to benefit from inflation. Such assets whose values tend to appreciate faster than the rate of inflation and thus protect the wealth of their owners are called "inflationary hedges." However, there is no assurance that these assets will increase in value; many investors who try to "hedge against inflation" invest in assets that lose money. At the lowest

end of the wealth spectrum are the poorest people in society who receive their incomes from a variety of government programs such as food stamps, Aid to Families with Dependent Children, and social security. They are not substantially affected by inflation because most the transfer payments they receive from the government are automatically adjusted upward to keep pace with inflation. And the largest losers from inflation are retired people who rely on fixed income from pensions, and workers whose wages do not keep pace with inflation. These people cannot afford to buy housing or otherwise invest in assets that have a probability of increasing rapidly in value and, as a consequence, cannot protect themselves from the impact of inflation. The fact that the majority of people cannot do anything to protect their wealth from inflation is indeed a serious problem.

Inflation also has undesirable consequences in terms of our Nation's production and economic growth. The recent decline in productivity and industrial output are in part a consequence of the persistent inflation. Businesses that are uncertain about the future rate of inflation and how it will affect the demand for their products may hesitate to produce a new product line or may lay-off some of their employees. In addition, inflation acts to reduce the amount of investment funds available for purchasing the plant and equipment necessary to maintain efficient operation processes.

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Personal saving by individuals typically provides investment funds to businesses. Under non-inflationary conditions, a large portion of these funds are typically invested in corporations through the purchase of corporate stock and bonds. However, real corporate profits tend to decline with inflation, and when investors find that their savings are eroded by inflation, they will alter their saving and investment patterns in an attempt to protect their wealth. They will invest in housing, real estate, and precious gems such as diamonds and gold. The effect of diverting investment patterns is to reduce the funds available to corporations. Lacking funds to purchase new plant and equipment, businesses are forced to operate less efficiently than they would without inflation. The result is lower "productivity" (output per worker), which reduces the Nation's aggregate supply of output and further aggrevates inflationary pressures.

Inflation also makes it very difficult for families to plan for the future. It confuses the issue about how to save money or whether it is worth saving for the future at all. For example, many of you have discovered the adverse impact inflation has had on your effort to save for a college education. Another undesirable impact of inflation is that when prices of goods and services are changed often, as occurs during inflation, the prices of products themselves do not convey as much information as they do when the general price level remains constant (Think about how much information is provided by the price

of a product!) Another cost of inflation--which is smaller, but by no means trivial--is the time and effort necessary to always change prices (for example, in markets, restaurants, hardware stores, etc.).

Inflation also has adverse sociological and political effects. It causes disillusionment, breeds discontent, creates conflict between people, and instills in the population doubts about our government and about the structure of our society. Social tensions arise, particularly between persons who are able to protect their economic positions despite inflation and those who cannot. Inflation-induced frustration may lead to declining support by the working class for certain social programs that are helping the truly needy. In addition, persistent inflation reflects poorly on our elected officials and even the democratic structure of government.

What Are the Sources of Our Inflation?

As described earlier, inflation typically occurs when the quantity of goods and services demanded at prevailing prices exceeds the available supply of goods and services. This is similar to the often-used, over-simplified statement, "Inflation occurs when there is too much money chasing too few goods." Total or aggregate supply of goods depends on the growth of the labor force, total plant and equipment available for production processes, technological advancements, and raw materials necessary for production. Total

aggregate demand depends on consumer behavior, which is substantially affected by the government's economic policy such as its tax and expenditure actions and the growth rate of the money supply.

To identify the sources of the excess demand or inadequate supply (that is, when the overall claim on the total output of economy exceeds the output that the economy is capable of producing) is to identify the true sources of inflation. It is noteworthy that this approach avoids placing the blame for inflation on the rising prices of certain goods and services, which in reality only identifies the symptoms, but not the true causes of inflation.

The general price level may rise temporarily as a consequence of many phenomena, but persistent inflation will occur only if government follows policies that allow the inflation to continue. That is, the CPI will jump temporarily if there is a rapid rise in food costs as occurred in the early 1970's as a consequence of worldwide crop failures, or when there are rapid increases in oil prices, as have recently occurred as a consequence of the OPEC oil cartel. However, if the government does not "pump up" the economy--either by expanding the money supply or by increasing expenditures or decreasing taxes--the total funds available to purchase all products will stay constant, and people will have the choice of consuming less food, conserving energy, or spending less for non-food and oil related goods. Accordingly, relative prices of goods will

change due to changes in supply and demand conditions, but inflation cannot continue. Similarly, if a labor union negotiates a higher wage for its employees, the firms employing those workers will raise the prices of their products; but again if funds available for consuming all goods are limited, consumers will be faced with purchasing the same amount of those higher priced items and less of other goods, or start buying less of the higher priced items. Thus, there can be no long-run effect on inflation unless the government adapts policies that increase the amount of funds available to purchase available supplies.

The two primary methods by which the government stimulates the economy is by expansive "monetary policy" or expansive "fiscal policy". Expansive monetary policy is achieved by speeding up the growth of money supply or otherwise making credit conditions easier. Stimulative fiscal policy is achieved by increasing government spending, cutting taxes so that taxpayers would have more money so they could increase their own spending, or both. Expansive monetary and fiscal policies go hand-in-hand: government budget deficits that occur when government spending is increased or taxes are cut must be financed by borrowing (the government borrows by selling U.S. Treasury bonds) or by printing more money. Either expansive monetary or fiscal policy increases the amount consumers have to spend, with two results: it increases production and employment and, secondly, it adds to inflationary pressures as consumers

bid up the prices of goods and services.

The government has tended to follow expansionary policies that have resulted in our current inflation. Why, you should ask, would the government choose to implement policies that would add to inflationary pressures? First, it has done so in an effort to minimize the unemployment rate. Prior to World War II, business contractions (for example, the Depression in the 1930's) tended to be more severe than now, with very large declines in industrial production and high unemployment rates. Since World War II and, particularly, since the mid-1960's, the government has attempted to stabilize economic fluctuations by stimulating the economy when the unemployment rate was higher than desired. As a result of active economic policy, the government has reduced the severity of business contractions, but has also created and fueled our current inflation.

Second, the government has attempted to lift the incomes of many impoverished families above the poverty line by increasing spending on such programs as food stamps, Aid to Families with Dependent Children, and unemployment compensation; and has provided financial security to the needy elderly with higher social security benefits and Medicare. However, the government has not collected taxes sufficient to pay for these well-meaning programs, and there have been large budget deficits that have added to inflationary pressures.

Third, the government has adopted stimulative policies in an attempt to mitigate, or at least postpone, the adverse effects certain phenomena would have on production and employment if no action were taken. For example, consider the OPEC oil price increases. Since oil is needed in numerous productive processes, and consumers require petroleum products to heat their homes and fuel their cars, the OPEC price rises have increased the CPI and drained funds out of the U.S. economy. Rather than allow the OPEC price increases to lower the standard of living in the U.S., the government has stimulated the economy by increasing the funds consumers have to spend. This action has perpetuated inflation in the 1970's.

Fourth, the government has implemented a wide-ranging series of economic and social regulations, such as the minimum wage (which increases the cost of hiring), milk price subsidies to farmers, tariffs and quotas on imports, occupational health and safety regulations--all of which, however well-meaning, increase the cost of production and thereby increase the cost of product prices.

When the general price level rises due to the excess aggregate demand, workers find that the purchasing power of their paychecks has decreased, and they demand higher wages from their employers. Employers grant the wage increases and raise the prices of the products they sell in order to maintain their profit margins. Workers will

demand still higher wage increases to protect the real purchasing power of their income, while businesses try to maintain their profit margins, as long as inflation persists. This so-called "price-wage spiral" can be aggrevated by a decline in the productive output per worker, as has occurred recently. The reduction in productivity reduces the amount of goods available for consumption. However, if inflation persists, workers will demand still higher wages in order to maintain their purchasing power, even when worker productivity declines.

How Can Inflation Be Stopped?

This so-called inflationary spiral may continue on its own momentum for a while but it cannot continue as a long-run phenomenon unless the government adopts stimulative actions that provide more funds to the economy and thereby "accommodate" the price increases. That is, if the government held the money supply constant and did not stimulate the economy through fiscal actions, the inflationary spiral would be slowed and eventually stopped. Both business and labor would work in coordination to lower prices if they both believed the government would follow a consistent policy of restraint. Businesses would be more hesitant to raise prices since consumers with limited funds would turn to cheaper, substitute goods, and workers would demand smaller wage increases because they would realize businesses would not accept lower profit margins and would begin to hire cheaper labor.

Thus, stopping the inflationary spiral, or even slowing its momentum, requires that the government follow a more restrictive fiscal and monetary policy. The fight against inflation would also be aided by modifying many of the government regulations that are dampening the productive efficiency of our businesses. The reasons why the government did not bring inflation under control in the 1970's were suggested by the discussion in the previous section. Put simply, ending our current inflation would involve costs, and the government has simply not been willing to incur some of those undesirable effects of reducing inflation.

Reducing government spending and/or increasing taxes, complemented by a slower growth in the money supply, would dampen consumer demand and reduce inflation, but it would also lead to a slowdown in production and higher unemployment in the short-run. The long-run impact of a restrictive policy would be positive: as described earlier, an economy with stable prices operates better than an inflationary economy. But the short-run undesirable effects would last until people's expectations of inflation decline.

The government alone is not the sole culprit in perpetuating the inflationary spiral. Workers expect that the real purchasing power of their income should be maintained; that explains why workers demand higher wages, even when they do not produce more. Labor unions exert political pressure on the government to stimulate the economy because workers would lose jobs in the short-run if the government

were to adapt strict anti-inflationary measures. Individuals who rely on government for transfer payments, such as food stamps, social security, unemployment compensation, etc., also place demands on the government to increase benefit levels in order to keep pace with inflation. Businesses increase prices in attempts to maintain their profit margins and also exert political pressure on the government for special favors, such as import quotas and tariffs that protect them from foreign competition (these indirectly add to inflationary pressures).

Combined, a wide-ranging list of interest groups representing all different facets of society are continually lobbying Congress and the President for special provisions. In general, they demand more, not less.

The government has generally met these demands, and the result has been to fuel the inflationary spiral. For example, nearly all government transfer payments that provide direct dollar benefits to individuals are indexed for inflation so that the benefit levels automatically increase with inflation; special tax provisions that allow some taxpayers to pay lower federal taxes increase the size of the federal deficits; certain businesses are given subsidized loans or direct subsidies; and a wide assortment of economic and social regulations have been adapted to protect certain groups in society. And, all the time, the government has allowed the money supply to grow at an inflationary rate.

Saying "No" to some of these demands and adopting a restrictive stance in an attempt to dampen inflationary pressures would involve costs that the government has not been willing to accept. The President and members of Congress must run for election every several years, and they are not willing to incur the short-run costs of reducing inflation for fear it would endanger their chances of re-election. One can imagine the difficulty of convincing a member of Congress to raise taxes, or reduce the benefits that accrue to certain groups, in order to balance the budget and dampen inflation, particularly during an election year. Of course, Congress would be more willing to follow a non-inflationary policy if there were less demands for more spending, lower taxes, and government regulations. However, no single interest group can be expected to voluntarily accept lower income or wealth, so we should not expect them to let up on their demands on the government.

Therefore, the initial impetus for slowing the inflationary spiral must come from government, in the form of restrictive monetary and fiscal policy. Until government takes a more restrictive stance, and until workers and businesses are convinced government will not pump up the economy and bring on new inflationary pressures, the inflationary spiral will continue.

In the past, the government has not dealt directly with the problem of inflation, and has caused more problems than it has cured. For example, in the early 1970's, the

government attempted to stop inflation by imposing wage and price controls on the economy, but that policy failed for obvious reasons. Placing limits on the levels of wages and prices of certain commodities such as food or oil addresses the symptoms of inflation rather than its fundamental causes. Analogous is plugging up a boiler's safety valve rather than turning down the burner. In fact, mandatory controls on prices tend to be counterproductive. Following the removal of wage and price controls that were imposed in the early 1970's, wages and prices shot up to levels higher than what would have occurred had controls never been imposed. Controls also would lead to costly delays in adopting truly effective anti-inflation measures. In addition, placing price limits on certain commodities leads to a misallocation of scarce resources and would have other undesirable side effects. For example, as we have seen recently, limiting the price of gas and oil--which effectively reduces prices for these products below what they would be in an unregulated market--discourages energy conservation, and has undesirable effects on national security.

Conclusion

Inflation must be recognized as a major problem that will not be solved easily without hardship. And while inflation has been perpetuated by government actions, those actions have been adopted in response to demands by all citizens. What, then, should be the role of the consumer

in helping abate our inflationary process? First, the consumer must recognize the magnitude of the inflation problem and urge Congress and the President to adopt the restrictive fiscal and monetary policies necessary to end the inflationary spiral, while avoiding panaceas such as mandatory wage and price controls that have undesirable side effects and only delay implementation of a truly anti-inflationary policy. A second and related point is that consumers must recognize that reducing inflation involves costs, and that we must all be willing to incur some of those costs in order to fight inflation. This means demanding less from government, rather than more and more. In addition, it also involves altering spending habits by consuming cheaper substitute products and by conserving energy sources and other scarce natural resources. A combined effort by consumers, business, and the government is capable of ending inflation and bringing a renewed prosperity to our Nation's economy, but in order to be successful, such an effort must begin with the government and it must be definitive and unyielding.

Consumer Education Development Program

A National Study

INFLATION IN THE BASIC NECESSITIES

-- AND HOW TO SOLVE IT

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A POSITION PAPER

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Inflation is something that we hear about on the news, read about in the newspapers, and experience everytime that we purchase a good or service. But what is inflation? How does it affect us? And, most important, what can we, as individuals and as a society, do to stop inflation?

1. The Meaning of Inflation

The word 'inflate' means 'to fill with air or gas': 'to puff up'.

In economic terms the word inflation usually means a rise in the price of goods and services we buy. The inflation rate is the speed at which the prices are rising. Wages (the "price" of labor) and interest rates (the "price" of money) are sometimes also said to be inflating when they are rising rapidly. But normally inflation refers to prices of items that make up our standard of living.

Just because the price of an item increases doesn't mean that we have inflation. Even in periods when the average cost of living is roughly stable, some items increase in cost while others may decrease. Farm products, for example, move up and down with the seasons. Other prices will change with shifts in supply and demand, the cost of production or the cost of monopoly control in a market. If changes in these prices balance each other out, the increases are not a national problem.

Through most of the 1950's and 1960's inflation rates were relatively low. During the 1950's prices increased an average of 2.1 percent per year, slightly less than the 2.4 percent annual rate in the 1960's. These levels of inflation caused few problems because wages and salaries were growing enough to make up for any hardship caused by higher prices.

The 1970's were a different story. The Consumer Price Index, the federal government's overall measure of price increases, rose 104 percent. Gasoline prices tripled. A loaf of white bread nearly doubled in cost. Doctor's fees

were up 116 percent, and the cost of a hospital room jumped 167 percent. New houses more than doubled in cost, from $35,500 in 1970 to $74,440 in 1979.

Much of the inflation in the 1970's was concentrated in the basic necessities of food, energy, housing, and medical care, particularly in the last few years. Taken together, the prices of the basic necessities rose 14 percent per year from December 1976 to December 1979 while the non-necessities (all the other items in the economy) only rose 6.3 percent over the three years. And the basic necessities make up a large part of what the average citizen has to buy everyday.

The four basic necessity sectors make up 64 percent of the average American family's annual spending. For the poorest 20 percent of our families, the cost of the necessities is nearly 90 percent of annual spendable income--and for the poorest 10 percent, the cost of the basic necessities is 119 percent of annual income.

By definition, buying necessities cannot be easily postponed. We can delay buying a new car, or forgo a new stereo system, but we can't put off buying the week's groceries, paying the monthly rent, buying gas to get us back and forth to work, or going to the doctor when we get sick.

For the vast majority of Americans, the basic necessities are the heart of the problem of inflation.

2. The Effects of Inflation

Because of inflation, the average real income (income adjusted for inflation) of the American worker is now at the same level as in 1961, down from its peak in 1972. In other words, the income of the average worker is the same as it was almost twenty years ago, after enjoying steady increases until 1972. When Paul Volcker, the chairman of the Federal Reserve Board, spoke in 1979 about the need

to "reduce the standard of living of the average American" in order to fight inflation, he was talking about something that had already happened.

The elderly have a hard time coping with high prices because most live on fixed incomes such as pensions and Social Security payments. Thus they have to rely on cost-of-living increases to keep their income levels close to the same real level after inflation. And because the elderly have traditionally avoided going into debt, they make sure that they pay their bills before they make other expenditures. For example, some senior citizens in the South and Midwest died during the heatwave in the summer of 1980 because they refused to use fans and air conditioners, fearing that they would be unable to afford the resulting electric bills.

And the problem is just as bad for the poor. Because the poor have to spend more to obtain a minimal level of the basic necessities than they receive in annual income, they are forced to do without. The poor have to make choices on whether to spend money on food or on heating oil--on whether to pay the rent on time or pay for a doctor's visit. The low income are forced to rely on welfare payments, food stamps, and other social service programs to make sure that they maintain a minimum standard of living.

There is another group of people who are hit hard by inflation, largely because of government policy which relies on slowing down the economy to fight inflation. Policies which encourage recession as a solution to the problems of inflation result in millions of Americans who are willing and able to work suffering from unemployment. During the spring of 1980 close to eight percent of the U.S. labor force was unemployed while inflation continued at double-digit levels. Just as in 1974-75, we had high unemployment combined with inflation,

a strong signal that a policy of encouraging unemployment doesn't solve inflation.

But it is not just the elderly, the poor, and the unemployed who are affected by inflation--everyone is hurt. Because people expect higher prices in the future, they distort buying plans and purchase items not that they may not really need. Saving is discouraged because inflation lessens the value of savings. Businesses are uncertain about the future, so the long term investments in capital goods that we need to keep our economy productive are not made. Instead money is spent in money markets, commodity futures, and other short term investments, encouraging speculation and discouraging a long term outlook on our economy. And inflation pushes up costs for government, too, so either taxes are increased or services are cut--neither of which are attractive choices for either politicians or citizens.

3. The Causes of Inflation

Why did prices increase faster during the 1970's than in the 1950's and 1960's? Why are they continuing to rise? There are a number of different explanations, but some are more often used than others.

It's Government Spending!

Some people say that the principal cause of inflation is deficit spending by the government. The federal government is spending more money than it is receiving in tax revenue. This theory says that the extra money that the government spends (the deficit) is pumped into the economy where it bids up or "inflates" the prices of the goods we buy. People who believe this theory want the government to balance its budget--usually by cutting government spending.

Although the idea that government spending is the prime cause of inflation is a simple one and appeals to many (especially those who are opposed to the size of the government), it doesn't really explain the causes of our present inflation.

First, if we take all the levels of government together (local, state, and

federal), the budget is already nearly balanced. If we include the money that the government holds in various reserve funds, the income to government from tax revenue and other sources is roughly equal to expenditures. This alone should make us suspicious of the argument that government spending is the cause of inflation, but there are other flaws as well.

Second, when we look at other countries such as West Germany and Japan, we find that they both ran larger budget deficits as a percentage of their total economic output than the United States did in 1979, but had much smaller rates of inflation and unemployment than did the U.S. Saying that it is the size of the government deficit that is responsible for our inflation ignores the experience of other countries.

Finally, if it were government spending that was the cause of inflation, we would expect the prices of almost all goods and services to be rising at about the same rate. But the prices of the basic necessities are rising much faster than the non-necessities. Thus the government spending argument doesn't explain the heart of the new inflation--the basic necessities.

If we follow the argument that government spending is the cause of inflation, we run into another economic problem. We learned in the Great Depression that government spending is necessary if we are to keep people working and move the economy closer to full employment. So if we cut back on government spending, we will put people out of work without really solving the problem of inflation. The Congressional Budget Office estimates that $20 billion in cuts from the federal budget would reduce the inflation rate by only 0.3 percent--yet the same money used for a federal jobs program would put hundreds of thousands of people to work.

Too Much Money

Some people say that inflation is caused by too much money in circulation and therefore we should reduce credit availability and raise interest rates. The theory is that we can only slow inflation by reducing the money people have to spend. But this "solution" often makes the problem worse.

For example, the cost of housing is increased dramatically by a policy of high interest rates and tight money. An increase in the mortgage rate from eight percent to ten percent means a difference of over $20,000 in interest payments over 30 years on a $40,000 house. And mortgage rates of 14 percent mean that a $40,000 house will cost $170,625 when interest charges are included. This drives up the price of housing, and the Consumer Price Index, making it that much more difficult to stop inflation.

In addition, since people have to buy necessities first, any drop in demand because of reduced money in people's hands will be felt in the non-necessities where prices are not rising as fast.

Finally, the certain result of reducing the money supply and tightening credit would be to depress business activity and put more people out of work.

We Expect Inflation, So We Get It

Some people think that the reason for the current inflation is the American consumer. We expect higher prices in the future because prices are going up today. Therefore, we purchase goods now on credit, increasing the demand for these items, and driving up their prices.

While this might help to explain why inflation continues, it doesn't help us to explain how the current inflation began. The inflationary expectations approach only addresses the symptoms of the problem, not its causes.

Inflation in the Basic Necessities--and How to Solve It

The United States is entering a new economic era. Periodic resource shortages, increasing international competition and the declining position of many U.S. industries have made our economy subject to sudden price jolts--particularly in the necessity areas of energy and food. These periodic jolts (like the OPEC oil price increases) make the old remedies of fighting inflation by reducing government spending or cutting back on the money supply useless. We would have to plunge the economy into another Depression if we were to try to stop inflation by creating unemployment.

The first requirement for a realistic anti-inflation program is to adopt a system of mandatory price-wage-profit controls. So-called "voluntary" price-wage guidelines do not work because both business and labor can violate them at will. Furthermore, they typically fail to deal with a large part of our current inflation--the basic necessities. Such key items as energy prices, food prices at the farm, and interest rates are exempt from the guidelines, while items such as rents, doctor's fees and hospital visits are largely excluded because they are provided by smaller sectors of the economy and the current guidelines only cover the largest corporations and labor unions.

To avoid the problem of exempting just those items whose prices are rising the fastest, we need a comprehensive program of mandatory price-wage-profit controls. Only then will we gain the time that is needed if we are to slow inflation over the long run--because slowing inflation over the long run requires programs to overcome the problems in the basic necessity sectors which stem from changing world markets and increasing monopolies here at home.

FOOD

Food prices rose 9.8% per year from 1972 to 1979. The initial reaction when we see higher prices at the grocery store is to blame it on the farmers--but they

only get three cents of every dollar that we spend on bread, and a similar small portion of the price of most foods.

There are three major causes for the food price inflation of the 1970's.

First, our food moves through a number of "channels" before it reaches the table. It goes from the farm to food processors to distributors to the grocery store and then home. Increasingly these distribution channels are dominated by just a few companies. Already 97 percent of chicken farming, 85 percent of citrus production, and over 90 percent of sugar production is controlled by companies which are vertically integrated (that is, they own not just one stage of the process, but each stage from the farm to the distributor). Because of increasing concentration in the food processing industry and in the distribution sector, after-tax profits in food marketing rose over twice as fast as food prices between 1970 and 1977.

Second, our agricultural system isn't protected from the shocks to the system that can be caused by sudden price rises due to shortage or bad weather at home or abroad. For example, after the Russian wheat deal, which resulted in large overseas grain sales in 1972 and 1973 (and also in large profits for grain speculators), basic food prices increased sharply, especially for grain and meat. The bad weather which characterized the summer of 1980 also resulted in the prices of grain and beef rising substantially. Because the U.S. is such an important supplier of food to other countries, we also feel upward pressure when there are overseas shortages.

A third reason for high food prices during the 1970's is the increasing cost of energy, especially for oil. Energy is used extensively in a number of stages of the food process, from the first stage at the farm when the farmer plants his crops to the movement of the food from the farm to the processor. Energy is also used extensively in processing. Transportation of the food to the store and its storage results in additional costs. Even farm inputs are heavily based on energy--much of the fertilizer and pesticides used in farming are based on petroleum and

use large amounts of energy in their manufacture and application to the soil. As the cost of energy increased in the 1970's, so did the cost of these food inputs.

Thus there are three principal causes for the food price inflation of the 1970's--increased concentration and increasing layers between the farmer and the consumer, uncontrolled jolts to the system caused by bad weather or speculation-caused shortages, and the rapidly increasing cost of energy.

Short-term solutions to rising food prices include using farmers markets to encourage the purchase of locally-grown food without extensive layers of middlemen, stopping the continual increase in dairy price supports at the federal level which raises the price of milk, cheese, and other dairy products. and repealing the sales tax on food in the 23 states which have one.

Over the long term our food system needs to deal with the problem of increasing concentration. Enacting restrictions on mergers would help to prevent increasing concentration in the future while making it possible for consumers to sue companies accused of price-fixing (now lawsuits can only be brought by middlemen who are often afraid to challenge their suppliers) would put pressure on firms to avoid price-fixing.

Efforts which help to strengthen local agriculture also help to fight concentration. Increased support for food cooperatives and improvements in the domestic food marketing system which bring the food more directly from the farmer to the consumer can help to reduce the number of channels in our food system while producing food of higher quality.

We also need to find a way to stabilize the price of basic foodstuffs like grain. Unlike most other industrial countries, the United States government does not have the authority to try to stabilize the price of grain. We should have a federal grain board which purchases grain from farmers in years when farm prices are below a fair price and sells it on the open market in years

when domestic shortages or large exports to meet international food shortages threaten to drive the domestic price of grain up rapidly.

Finally, we need to decrease the agricultural system's reliance on expensive energy as an agricultural input. A shift to organic methods of agriculture and a decreased reliance on energy based pesticides and herbicides will lessen the cost of energy on the farm. Changing the delivery system from a nationally and internationally based agricultural system to one with a larger focus on which products can be grown locally will help to lessen the cost of energy in our food system.

ENERGY

The principal reason for the increasing cost of oil and other energy products over time is our reliance on non-renewable energy resources. There is only a finite amount of energy in the ground, and the more we use, the more energy and money it takes to get the remaining energy out. It's like eating a bowl of spaghetti--the first forkful is easy but by the end of the bowl you're using more energy to get the spaghetti into your mouth than you're getting in return.

But our reliance on non-renewable energy only explains the long-run reason for increasing oil and gasoline prices. The actions of OPEC (the Organization of Oil Exporting Countries) and the major oil companies have combined to drive prices up faster than they would have risen because of slowing non-renewable energy production.

OPEC set off the energy price spiral in late 1973 with its embargo on oil exports to the United States as a result of our support of Israel during the Seven Days War. As a result, energy prices in the United States increased 32 percent during 1974 and inflation climbed to unprecedented post-WWII rates of 11 percent per year. That initial large jolt to the economy was slowed only by

a major recession which resulted in almost eight million people being out of work and the unemployment rate rising to 8.5 percent, the highest level in 30 years.

The embargo also caused U.S. policymakers to decide that the nation was overly dependent on foreign oil. To help encourage domestic production, we adopted an energy policy which decontrolled first natural gas prices and then the prices of domestic oil prices. As a result of decontrol, U.S. energy prices are climbing rapidly towards the artificially established OPEC world price.

The effects of decontrol, together with regular OPEC price increases, are enormous. It is estimated that decontrol will cost the average family $1100 per year during the 1980's while saving fewer barrels per day in imports than either strict enforcement of the 55 mile per hour speed limit or mandatory building conservation standards or trading surplus electricity between systems during periods of peak demand.

To get off the current spiral of higher and higher energy prices, we need to minimize our waste in energy use and greatly increase the amount of energy which we receive through renewable resources. At the same time, we need to find a way to reduce the influence of OPEC and the large oil companies on domestic energy prices.

To break OPEC's grip on domestic energy prices, we need a federal oil and gas import agency which is solely responsible for the importation of energy from foreign countries. This keeps the large oil companies from bidding against one another for foreign oil and gives us leverage to use in bargaining with OPEC countries. We should also provide technical assistance to non-OPEC countries, such as those in Africa, which are interested in producing more energy from their own resources outside the OPEC pricing mechanisms.

To solve the problem of high energy prices, we need to move away from the idea that letting prices rise will force conservation and instead put a cap on domestic energy prices. A basic amount of energy (a "lifeline" amount) should

be available to every citizen at a minimal cost to allow enough fuel to heat homes and enough gasoline to drive back and forth to work. Making the extra energy that people use above the lifeline amount more expensive is a more effective way to get conservation than simply allowing the price of energy to rise.

But these are only partial solutions. While bargaining through an agency with OPEC and providing lifeline amounts of energy help to mitigate the effects of the rising price of nonrenewable energy, the long-term solution to high energy prices includes conservation and the development of new sources of renewable energy.

A recent study by the Harvard Business School concluded that we could reduce the amount of energy that we use by 30 percent in many areas and still maintain our present standard of living. Energy use in the average American home can be reduced by two-thirds through insulation, weatherstripping, and simple changes in furnaces and air conditioners.

The potential for solar energy is also large. One fifth of our energy supply could be provided by renewable sources of energy by the year 2000 if we start to work today. At the same time, large numbers of new jobs would be created in manufacturing and installation industries.

We can end the rapid increases in energy prices--but only if we move to a system based on renewable energy.

HOUSING

Speculation and high interest rates combined with a lack of planning by the public have resulted in housing prices going through the roof. Large numbers of American families are being priced out of the housing market, putting even more stress on the limited rental housing available.

The cost of housing is heavily influenced by the supply of old and new

housing to meet the needs of an area's population. Because there was no program or policy which worked to anticipate the housing needs of the nation in the past and planned to meet those needs, we are now experiencing a shortage of new family housing. Because of the 1950's Baby Boom, there are now a large number of people moving into the housing market. Changing family patterns with more single heads of household have also increased the demand for the available housing stock.

But new construction of housing is very sensitive to the interest rate. When interest rates are low, it is substantially cheaper to build houses and finance them than when interest rates are high. Yet the government, in an ill-chosen strategy of fighting inflation by slowing down the economy has resulted in sharp drops in housing starts along with increased costs as a result of high interest rates. But high interest rates only make the problem of high housing costs worse instead of better.

In addition, the cost of land has been driven up over the decade by speculation and the increased demand for luxury housing. The trend in many of our nation's urban areas to conversion of existing apartments for condominiums has driven many of our poorest people from their homes as urban areas are once again becoming attractive areas to people with higher income levels.

Just like any family, the government does better when it plans ahead. We need to work to forecast the number of new homes that are needed, and to develop policies that will make sure that they are built.

To meet the demands of the children of the 1950's Baby Boom, we need to be building about 2.5 million housing units per year. Lately we have been building at an annual rate of just over 1 million units. The only real solution to the problem of a housing shortage driving up prices is to increase the supply of family housing.

But current government policies which favor high interest rates make the cost of buying a new home prohibitively expensive for most families. To make housing affordable we have to adopt a policy which keeps money available for the housing sector at affordable interest rates. This means that the government has to plan how much money has to go to the housing sector to meet the nation's housing needs and allocate a share of the nation's capital to housing to meet those goals.

At the same time we need to end speculation in the housing sector. Limits on conversions to expensive condominiums will help to keep rental housing affordable for those families which are unable to buy a home of their own. Rent control legislation will make it easier to keep rents from skyrocketing in attempts to push the low income from their apartments as well as providing a way to reserve some low and middle income housing in our nation's cities.

HEALTH CARE

The United States has a health care system which is a loosely regulated collection of public and private institutions, insurance companies and doctors.

The cost of health care in the U.S. went up 117 percent between 1969 and 1979. A day in the hospital went from $50 to over $200. Unless a family has a health insurance plan, it runs the risk of going deep into debt anytime there is an illness in the family.

Many people place the blame for high hospital costs on labor--yet the share of the consumers hospital charge that went to labor (excluding doctors) dropped 14 percent between 1955 and 1975. Meanwhile, the average doctor's salary in 1976 was $63,000 and rising.

Because of our system of third-party payments for health care through either

insurance companies or through the federal government, doctors have routinely been allowed to pass on the costs of expensive new equipment to consumers in the form of higher insurance rates. And the federal Medicare and Medicaid programs have included almost no provisions which would ensure that the care which was provided to patients was either necessary or the least expensive available.

Our health care system has been heavily biased towards increasing technology, including more machines and more drugs, instead of minimizing the amount of medical care needed by improving individuals' health because there are no incentives or systems of cost controls which keep these high-cost approaches from being used.

The first task in easing the cost of health care for Americans is to adopt a program of national health insurance which makes it possible for people to afford to go to a doctor before they are seriously ill instead of after. Financing a national health insurance program through progressive taxation will help to decrease the influence of the major insurance companies on the health care system while guaranteeing that all Americans have access to decent health care.

Over the long run we need to develop a health care system which is based on preventative health care. We can use more paraprofessionals and nurses to provide introductory health care and use expensive doctors' services only for tasks where they will do the most good.

Of course cost containment legislation which limits the amounts that can be charged for various medical services is a vital part of any program to stabilize the cost of health care in the United States.

4. Conclusion

The ultimate solution to the problem of inflation is to reorganize and plan

the basic necessity sectors for price stability. The programs and policies outlined above are part of that program to stabilize prices.

Fortunately, the programs that help to stabilize necessity prices also can help us to address our unemployment problem. A move to energy conservation and renewable energy can put hundreds of thousands of people to work insulating houses, producing solar heaters, and rebuilding the nation's railroad system. Meeting the housing needs of the American public will require a greatly expanded housing sector. A health care system which is based on preventative health care will open up thousands of jobs in early detection of health care problems. Our food system needs to rely more heavily on productive small farms, consumer cooperatives, and local marketing systems, all of which would increase employment.

These solutions will require a great deal of action on all levels. Citizen action in the political realm is needed if we are to affect the price of oil and create the demand for legislation such as that needed to create a national grain board. We cannot avoid our responsibility to participate in making the decisions that affect the direction of our economy on the national level.

But there are also a number of state, local, and individual actions that help to fight inflation on a smaller level. Millions of citizens around the country have joined food co-ops to get higher quality food at affordable prices. Many food co-ops are now opening stores to make this food available to non-members. Local energy conservation programs like weatherization have helped to make the cost of heating a home in the winter affordable for many low income families. In Detroit, Michigan, a group was formed to do low-cost housing repairs for the elderly, in many cases using retired carpenters whose skills would otherwise have been lost. And citizens in New York City work together to identify low-cost drugs that are available at various drugstores to lower the cost of medicine.

The examples are endless. But until we have the personal commitment and political willpower to end inflation in the basic necessities, all of us will continue to suffer from inflation.

BASIC NECESSITIES PRICE INDEX

(Percent Change)

	1978 as a whole	1979 as a whole
ENERGY	8.0	37.4
SHELTER	11.5	17.4
FOOD	11.8	10.2
MEDICAL CARE	8.8	10.1
NECESSITIES	10.8	17.6
NON-NECESSITIES	6.5	6.8
CPI -- ALL ITEMS	9.0	13.3

FOR THE FOUR QUARTERS OF 1979

Annual Rate (Seasonally Adjusted)

	percent change for three months ending in:			
	March 1979	June 1979	Sept. 1979	Dec. 1979
ENERGY	25.0	64.2	50.1	15.7
SHELTER	14.3	15.9	17.6	22.2
FOOD	17.7	7.5	4.2	11.1
MEDICAL CARE	9.4	7.7	9.9	13.3
NECESSITIES	16.3	18.6	17.6	17.2
NON-NECESSITIES	7.8	5.3	6.6	7.4
CPI -- ALL ITEMS	13.0	13.4	13.2	13.5

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Source: Bureau of Labor Statistics

Rates of Inflation for Necessities and Non-necessities, 1970-79

(Percent change during calendar year)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
NECESSITIES	5.4	3.5	4.1	12.9	13.0	7.7	3.7	8.3	10.8	17.6
NON-NECESSITIES	5.6	3.3	2.5	3.4	11.2	5.9	7.0	4.7	6.5	6.8

Source: Bureau of Labor Statistics

Some Specifics of A Progressive Anti-Inflation Program

	Government Actions Advocated or Initiated			*Citizens' Actions (in addition to Inquiry, Advocacy and Electoral Politics)*
	Federal	*State*	*Local*	
Price Controls	Permanent, selective controls, starting with *Fortune* 500 Opposing Carter on decontrol and anti-control	Tough utility regulation Public interest advertising	City price commissions Extensive consumer education, dealing with product quality as well as prices, and helping in comparison shopping	Monitor sellers Monitor public officials at all levels Widespread initiatives in consumer self-education and protest
Spending	Cut war budget and corporate subsidies Regulate capital flight and foreign investment	Reduce business subsidies More efficient public administration	Reduce tax abatements More efficient public administration	Protest welfare handouts to corporate rich and local speculators Support public officials who resist private pressures
Taxing	Close major loopholes General fund financing of social security	Anti-speculation taxes Progressive income taxes Lower taxes for homeowners	Anti-speculation taxes Less reliance on sales taxes Lower taxes for homeowners	Tax-reform initiatives Tax withholding under certain circumstances
Credit	Reduction of interest rates Credit allocation Activation of new national co-op bank Promote credit unions	State banks Productive use of pension funds	Municipal banks Productive use of pension funds	Protest redlining Withdraw deposits from certain banks Withhold mortgage payments under certain circumstances
Energy	Public corporations for oil imports and energy development Major shift to solar, biomass and neglected hydro energy, as well as hard and soft coal	Anti-trust actions against oil companies State power generation and distribution	Municipal public power, with elected consumer representation on boards	Anti-nuke demonstrations Install solar devices Voluntary conservation and recycling
Transport	Massive mass transport expansion and improvement Require more efficient, safer cars	Improved land-use planning to minimize trips to work	Bicycle lanes Free downtown buses Mini-buses	More bicycling and walking More car pools
Housing	Revive public housing for both rehabilitation and new construction	Low-interest loans for rehabilitation and new housing Public land purchase and maintenance	Rent control More public rehabilitation, construction and co-op promotion Public land purchase Zoning to prevent, not promote, speculation	Oppose condominium movements, gentrification, planned shrinkage and shortage-creating demolitions Tenant unions and rent strikes
Food	Less price support for agribusiness and factory farms Family farm aid Promote direct marketing More anti-trust action	Promotion of co-ops Consumers on marketing boards Consumer protection laws and enforcement	Promotion of co-ops Sponsor farmers markets Consumer protection laws and enforcement	Consumer co-ops, food gardens Boycotts Protest automatic checkout scanners
Medical Care	National health service Regulation of medical-drug-hospital costs	Support health co-ops Cost regulation	City-owned health maintenance organizations, health promotion education in schools	Self-care in home; improved diet; more physical exercise and activity, client-controlled health clinics
Insurance	Public insurance companies Clear wording laws	State insurance companies Better consumer information	City insurance Better consumer information	Buy term life insurance only Protest discriminatory auto rates

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THE INFLATION IN YOUR FUTURE

by Robert L. Heilbroner

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A great deal of our current confusion about inflation, I believe, arises because we do not think about it correctly. We spend most of our time trying to decide whether the main cause of inflation lies in rising oil prices, or burgeoning money supplies, or mushrooming government spending, or declining productivity, and very little time reflecting on the central fact that we live in an inflationary economic environment.

Nowhere is the point clearer than with the case of OPEC, now a prime villain in the conventional analysis of inflation. Oil prices have risen more during the past year, President Carter tells us, than over their entire previous history. The price of crude oil, today roughly $35 a barrel, has been projected to reach outlandish levels -- perhaps $90 a barrel -- in another few years. There is universal agreement that these oil hikes, past and projected, have been and will be a major cause of inflation.

But suppose we cast our minds back a hundred years to a time when the preponderant source of mineral energy in the country was coal, and imagine that the coal mines formed a cartel as powerful as OPEC and rapidly doubled or quadrupled energy prices in the country. Would that have been inflationary? Would it have touched off a widespread, self-feeding chain reaction of rising prices throughout the economy -- first in coal itself, then in steel, then in products made from steel?

I think no one would come to that conclusion. Instead, a coal OPEC would have resulted in the wholesale shutting down of coal mines unable to sell their product; in the drastic curtailment of steel output as plant managers cut back their unprofitable operations; in a decline of purchasing from the businesses and households affected by this turn of events; and thereafter in a fall in "carloadings" the index of general economic activity we used before GNP was invented.

The contrast between the anticipated effects of an OPEC oil price rise and those of an imagined nineteenth-century OPEC coal price rise sheds important light on the problem of inflation. For it makes clear that the same economic disturbance can produce different results in different settings. In late nineteeenth-century capitalism, a sharp increase in energy prices -- or in wages or interest rates --

would have touched off an economic contraction. In late twentieth-century capitalism they trigger inflation. Thus, as I see it, thinking correctly about inflation means first paying need to the changes that the economic system has undergone during the last century -- changes that make it respond to shocks and internal disturbances in a manner quite different from that of the past.

The Inflationary Structure

What are those changes? There is, to begin with, the radically different relation of government to the rest of the economy. We do not have statistics that enable us to compute exactly the volume of government spending of all kinds -- state, local and federal -- in 1880, but it is doubtful that it amounted to as much as a tenth of gross national product. Today it is about a third of GNP if we include spending for "transfer" payments, such as Social Security and welfare. In most European nations the proportion is markedly higher, often over 50percent of GNP.

It is not merely the economic impetus that is important about this vast change in spending. Equally significant is the enlargement in government responsibilities to which the spending bears partial witness. At the risk of repeating the obvious, I will point out that a century ago there was no "fiscal policy", no local, state, or federal payments for old-age penury or unemployment, no "disaster relief", no parity payments to farmers, no Small Business Administration, no federal financing of mortgages or insurance of bank deposits. It was each firm and each household for itself. Dog ate dog.

Thus the first change has been that floors have been placed under a multitude of economic activities, shoring up purchasing power, protecting most households against severe reversal, ensuring a degree of economic safety totally unknown in the era of pregovernmental capitalism.

A second equally striking change is the enlargement of the scale of organization in the private sector. Once again we lack statistics to make exact comparisons, but there is no difficulty in conjuring up the contrast between the two periods. In 1880 the giant corporation was just beginning to emerge. United States Steel had not been formed, the Standard Oil Trust had only just been conceived. The brigade of Generals -- General Motors and Electric and Foods -- was as yet unformed. Only the railroads were truly national corporations, forerunners of the industrial giants that are the central elements of today's business system.

Paralleling the emergence of the giant corporation is that of the giant trade union. In 1886 the largest labor organization was the Knights of Labor with 700,000 members scattered among a dozen industries. Today there are six unions with more members than the Knights of Labor. Within the central core of large manufacturing enterprises, about half the work force is organized. In strategic parts of the society, such as municipal services, the building trades, education, and transportation, unions occupy positions of great economic leverage.

This change in the texture of the private economy is every bit as important in altering the manner in which the economy works as the more frequently remarked change in its public/private mix. In the private economy dog no longer eats dog. It is an economy of bargaining blocs, of inertial bureaucratic masses, capable of exerting great power to protect and enhance their incomes or prices.

The third factor to which I would draw attention is the consequence of the preceding two. It is a profound change in the expectations with which we face the future and by which we steer our economic course. Filled with anxiety, as many of us are these days, we may forget how much more secure is the outlook of 1980 than that of 1880. Most of use expect, for example, that our pay will be increased each year, whether we work harder or more successfully or not. We expect that the nation's economic ills will be the object of vigorous government action, not left to work themselves out. We expect that our personal futures will be somehow provided for, so that we can indulge in large consumption spending in good conscience.

These changes in expectations are often the subject of sermons and scoldings. What I find important about them is that they act in concert with the underlying changes in structure, decisively altering the manner in which the economy functions. The placing of government floors, the unification of the corporate economy, the increased leverage of unionism, and the prevailing tenor of expectations -- all have worked to transform the depressionary propensities of late nineteenth-century capitalism into the inflationary propensities of late twentieth-century capitalism. As a result, we smile at the old adage that "what goes up must come down": today we believe that what goes up will continue to go up, and we gear our actions accordingly.

From this point of view, the search for the "cause" of inflation takes on a different aspect. What becomes crucial is to understand that today's economic structure propagates, magnifies, and sustains increases in costs and demand, instead of blocking, damping, dominating them. This is not to wave aside the inflationary stimulus of credit creation, oil hikes, environmental costs or -- to mention the unmentionable -- the monstrously cost-pushing, waste-creating defense budget. But we will not get very far if we discuss these causes with out constantly referring to the inflation-prone environment in which they operate.

Restructuring Things

Looking at inflation from this point of view makes it easier to see what must be done to stop it. The system must be altered in ways that will remove, or at least greatly reduce, its inflationary propensities.

In saying this, I take for granted that we cannot undo the structural alterations that have converted the capitalism of 1880 into that of 1980. I assume that, despite the rhetoric of conservative politicians or the efforts of Proposition 13's backers, we cannot disengage government from our midst. Government will continue to provide pensions and unemployment insurance and welfare and health security, probably on a growing scale. By the end of the century, very likely government in the United States will pay out half of GNP, as it does in Europe. Similarly, I assume that we cannot break up the Fortune 500, returning the business world to the market structures of the past and demoting the brigade of corporate Generals to field and company rank. I assume that we cannot break up our labor unions. And I do not think we will change our basic view of the economic world and the "entitlement" we expect from it.

Because I do not think the structural changes of the last century are reversible, I do not think that the most commonly proposed cure for inflation will work, namely "wringing" inflation out of the system by severely curtailing the ability of the banks to make further loans or by curtailing government spending. The main

purposes of severe fiscal and monetary policy are to create sufficient unemployment to temper the appetite of the big unions for higher wages, and to cause enough general hardship to cause entrepreneurs to trim the prices and housewives to trim their spending.

Pursued hard and long enough, such a policy can no doubt achieve its intended results. The question is whether it can do so before the economy is brought to its knees. For example, if unemployment here rose to the levels of unemployment in Switzerland or West Germany under their anti-inflation regimens, 30 percent of the labor force would be without work. The difference is that the Swiss and Germans could ship their unemployed back to their homes in Greece and Turkey and Italy, whereas ours would remain in our midst. My suspicion is that no Congress could long withstand the ensuing mail, the marches, the violence.

How else could we reorganize the economy to remove its inflationary tendencies? The obvious way is to match the floors that have limited its depressionary tendencies with ceilings that would do the same for its upward-moving tendencies. The question is what sort of ceilings would do the trick.

Selective wage and price controls would probably *not* provide the needed ceilings, although they might be useful as an initial measure to stop the momentum of the inflationary process. The reason is that such wage and price controls cannot be used to spread the inflation-fighting task equitably across the nation. It is impossible to monitor the prices of millions of enterprises or to supervise the wages of 100 million working people. As a result, wage and price controls mean that the wages of a dozen key unions and the prices of perhaps five hundred key companies will be subject to controls, while the wages and prices of the rest of the system will be left free.

This is tantamount to designating the union members and corporate managers in selected companies as Inflation Fighters, to use the MIT economist Lester Thurow's phrase. Let us suppose that we issued them badges in recognition of their patriotic task. If the union members and company managers saw everyone on the street wearing similar badges, there would be a powerful incentive to abide by the limitations of wage and price directives. But if only one worker in ten or one businessman in a thousand were decorated with an Inflation Fighter badge, how long could we expect such an arrangement to last?

The very difficulties of such a system help us to see the nature of the restructuring that would place an effective ceiling on the economy. It is for all of us to become Inflation Fighters, not just the members of a few unions. One way to bring this about would be to impose a very steep tax -- say 95 percent -- on all income earned in 1980 that was in excess of income earned in 1979. Perhaps for equity's sake we might exempt low-income earners from the limitation. But for the rest of us, membership in the inflation-fighting brigade would become compulsory. That would bring the upward spiral of income to an immediate slowdown.[1]

Objections spring instantly to mind. What about the effects of inflation-producing disturbances such as further increases in the price of oil? The answer is not difficult. We would have to decide, given our limited incomes, how much gas and oil to buy at higher prices and what other things to stop buying. Whatever our market behavior, because our household spending power was fixed, the price rise could not set into motion a system-wide rise in prices: our standard of living

would fall, but inflation would not rise. Simultaneously we could drastically reduce the impact of an oil price hike by gasoline rationing, by very high taxes on wasteful energy use, by banning energy-squandering products such as useless plastic packaging, and the like.

A far more onerous problem is how to handle increases in income that are not just the result of inflation-induced cost-of-living adjustments. What is to happen to the person who gets a promotion or who switches to a better-paying job, or whose income reflects a successful business venture or an enlarged professional practice? Here is where bureaucracy enters, as it inevitably must when the economy is restricted. There will probably have to be Income Boards to approve job reclassifications or to ask for proof of job changes, just as there were draft boards to approve exemptions from military service. There may have to be exceptions for self-earned incomes; perhaps very large and sudden jumps in such incomes would escape taxation only if sterilized in compulsory savings certificates. Certainly the problem is difficult and cumbersome, but ways could be found, just as ways were found to adjudicate the variety of circumstances under which individuals were eligible for unemployment insurance or for Social Security or government health payments. All these bureaucratic ways will saddle the economy with new costs, will slow down its rate of growth, and will surely become the target of gibes and irritations as well as attempts to evade the rules. But the structural propensity toward inflation of present-day capitalism will be gone or largely curbed, just as the floors that were placed under the economy in the 1930s and 1940s largely curbed the depressionary tendencies of earlier capitalism.

Living with Inflation

It must be evident that there is no possibility of enacting such a program within the near future. I conclude, therefore, that there is no chance of removing the inflationary bias of the system. Chronic and endemic inflation will be our constant companion until we gain the political will, or realize the social fear, needed to institute the kind of structural change I have outlined. It has been said -- and the quip illustrates both the difficulty and the gravity of the situation -- that the way to stop inflation is to declare war. Short of that it may take a decade to put the new ceilings in place, just as it took a decade to put in place the old floors.

In the meantime we will have to live with inflation. What does that mean? Here it is necessary to distinguish between the actuals costs of inflation and its threats and dangers. The costs are much less than we commonly believe. Despite our sense of being impoverished by inflation, the statistics reveal beyond doubt that real incomes -- incomes after inflation and taxes are both allowed for -- have been rising at virtually the same rate during the inflationary years 1972-78 as in the previous boom years 1966-72. Only during 1979 did the curve of real per capita income turn down and that seems to have been the effect of determined efforts to stop economic growth in the name of curbing inflation. Moreover, the official statistics do *not* show that the relative lot of the poor, the aged, blacks, or other disprivileged groups has worsened, popular beliefs to the contrary notwithstanding. The distribution of the population on the steps of the national escalator has remained about the same, although the escalator itself has been moving faster.[2]

I know that we feel damaged. But that is merely the consequence of our unequal exposure to the gains and losses of the inflationary process. Inflation

brings pay rises as well as price rises, but we are aware of our pay rises only once a year and of price rises 365 times a year. Moreover, if we take advantage of our pay rise to make a big purchase, such as a color TV set, the enjoyment of it every evening is not likely to compensate us for our steadily eroding standard of living when we shop in retail stores every day.

There have of course been losers in recent years. The take-home pay of factory workers has been lagging behind inflation, but not because hourly wage rates are lagging so much as because part-time work (largely female) has been growing in the factories. So, too, the real pay of college professors has been falling behind in recent years, but this is the consequence of a bad supply-and-demand situation for college teachers. Unquestionably some families have directly suffered from inflation, especially in the value of their savings accounts or life insurance (but not their real estate!). Yet, as we look in horror at the prices in the shopping centers and department stores we can also see a great many people buying those inflated wares. Has our actual national standard of well-being and comfort been substantially affected by inflation? Cries and groans and headshaking to the contrary, I do not think so.[3]

What is really serious about inflation are two threats that it holds over our heads. The first threat has to do with the strains that inflation imposes on our creditworthiness. Everyone has become aware of the extraordinary surge of consumer credit buying, a phenomenon that President Carter will try to arrest by tightening the rules under which the credit card economy works. Perhaps more serious, although less widely noticed,is the tendency of an inflation-ridden economy to pile up short-term rather than long term debt. Banks and other financial institutions will not lend money for long periods of time, knowing that they will be repaid in shrunken dollars. Thus debt gets shorter and shorter, and finally the banking system ends up (as it is today) with a great deal of short debt and virtually no new long debt.

The difficulty comes if a borrower such as Crysler Corporation or New York City get in trouble. If a big borrower is unable to meet its obligations, there is no time for working out the terms of a new deal or for allowing credit markets to improve. As a result, banks and credit institutions become extremely vulnerable to untoward events. The financial community has been holding its breath and crossing its fingers for a long time now.

A credit collapse could cause widespread business wreckage. But inflation poses a second, far graver threat, even if the banks stand firm. This is the threat that our present rate of inflation will quicken, first into the "Latin American" range of 50 to 150 percent a year, finally into the incalculable rates of Wiemar, Germany or the American Confederacy.

Is such a progression likely? Considerations of both logic and experience make us fear it might be. The logic is that inflation feeds upon itself because everyone tries to get ahead of everyone else. If we expect prices to rise 10 percent, we try to secure increases in pay for ourselves of more that that, say 15 percent, and our income objectives accordingly rise to 20 percent. Thus what begins as an orderly parade becomes a wild rush, as everyone tries to move up to the front rank.

Recent history proves some unwelcome confirmation of this logic. In the decade of the 1950s our yearly inflation rate averaged 1.4 percent. In the decade of the 60s it rose to 2.8 percent. During the 1970s it was just under

7 percent until 1973, when it broke through the double digit barrior. Today it is pressing toward 20 percent.

Do these disquieting considerations mean that inflation must develop a fatal runaway momentum? Our present anti-inflation policy is based on the hope that this is not the case. Economists in the Carter administration maintain that their suggested remedies -- mainly less government spending, some credit controls, and a small tax on oil -- will reduce the inflationary trend. No doubt they rest their case on the fact that we had a touch of double digit inflation in 1974, but cut it substantially by 1976; that England had 25 percent inflation in 1975 but lowered it by more than half within two years; that Japan had a ferocious inflation in the early 1970s, but has managed to curb it remarkably well in recent years.

We do not yet know whether the Carter program will succeed in halving the inflation rate to "only" ten percent. But there seems absolutely no chance that it will succeed in removing the tension gathered within the system. The inflationary spring remains coiled and ready to exert it's pressure the moment that anti-inflationary measures are relaxed. Tight money, burgeoning unemployment, and declining government spending will all exert some effect as long as they are applied. But once removed, the latent inflationary bias of the system seems certain to assert itself again, whether touched off by another buffet from OPEC, another round of wage increases, another wave of speculative fever. And the danger is that each time we find ourselves closer to Latin America.

Could we live with inflation rates of 50 to 100 percent a year? For a while, perhaps. There is a tremendous desire to cling to one's faith in money, for the alternative is a terrifying descent into a Hobbesian chaos. People learn to adapt, even to the most frightening circumstances. Nonetheless, such an inflation seems to me to be intolerable if endured very long. It will bring morale-destroying rumors, wracking social fears, and worst of all, a setting for wild political movements. Under such conditions, I believe we will move in the direction of a restructured capitalism along the general lines I have suggested. An economy with ceilings as well as floors, encumbered though it may be with another layer of bureaucracy, will then appear to be not an unthinkable, but an inescapable, indeed, a welcome haven.

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[1] I should add that income ceilings would need to be backed by an appropriate monetary and fiscal policy, designed to keep both public and private spending within the bounds of realism. This would mean less public spending for wasteful projects and less credit card living-it-up. In addition, a serious anti-inflation policy would try to reverse the falling trend of US productivity, probably by encouraging research, investment, and competition.

[2] Official statistics are always behind the times and suffer from various biases and distortions. It is possible that low-income groups have been disproportionately affected during recent years because the costs of food, health care, housing and energy (gas and heating) have risen faster than those of other consumer items. These basic necessities bulk larger in low-income than in upper-income budgets. Even if these contentions prove to be true, however, nothing like a large-scale redistribution of income has taken place as a consequence of inflation.

[3] True, our savings rate has declined, which may affect our future level of well-being. But current consumption is raised, not lowered, by this inflation-induced change.